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## **TOM.COM LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**POSSIBLE MAJOR TRANSACTION INVOLVING  
THE PROPOSED SPIN-OFF AND SEPARATE LISTINGS OF  
TOM ONLINE INC.**

**ON THE GROWTH ENTERPRISE MARKET  
OF THE STOCK EXCHANGE OF HONG KONG LIMITED  
AND THE NASDAQ NATIONAL MARKET,  
CONTINUING CONNECTED TRANSACTIONS,**

**PRE-IPO SHARE OPTION PLAN AND  
SHARE OPTION SCHEME OF TOM ONLINE INC.,  
GRANT OF OPTIONS TO AN INDIVIDUAL IN EXCESS OF ONE PER CENT. OF  
ISSUED SHARE CAPITAL OF TOM ONLINE INC.**

**AND**

**REFRESHMENT OF 10 PER CENT. LIMIT ON THE GRANT OF OPTIONS UNDER THE  
SHARE OPTION SCHEME OF TOM ONLINE INC.**

Reference is made to the announcement of the Company dated 24 December 2003, in which the Board announced that the Stock Exchange had on 19 December 2003 granted conditional approval for the Company to proceed with the Proposed Spin-Off. In addition, the Board further announced that a formal application had been made to the Stock Exchange on 24 December 2003 for the separate listing of, and permission to deal in, the TOM Online Shares in issue and to be issued pursuant to the Global Offering on GEM.

The approval of the Stock Exchange for the Proposed Spin-Off is conditional upon:

- (1) the provision to Shareholders of assured entitlements to TOM Online Shares, either by way of a dividend in specie of existing TOM Online Shares or by way of preferred application in any offering of existing or new TOM Online Shares; and
- (2) the publication of an announcement on the proposed listing of TOM Online.

The Company satisfied condition (2) by its announcement dated 24 December 2003 and will satisfy condition (1) by the making of the Preferential Offer as part of the Global Offering.

The Company will continue to be listed on GEM and TOM Online will continue to be a subsidiary of the Company following the implementation of the Proposed Spin-Off.

TOM Online is a “major subsidiary” of the Group for the purpose of the GEM Listing Rules. If the Proposed Spin-Off proceeds, it is expected to result in a material dilution of the Company’s interest in TOM Online under Rule 17.39 of the GEM Listing Rules. The Proposed Spin-Off is expected to constitute a major transaction of the Company under Chapter 19 of the GEM Listing Rules. As such, the Proposed Spin-Off is subject to the approval of the Shareholders (other than any Shareholder who is interested in the Proposed Spin-Off and who will be required to abstain from voting on the relevant resolution) under Rule 17.39 and Chapter 19 of the GEM Listing Rules. Cranwood has indicated to the Company that it and its Associates will abstain from voting on the Proposed Spin-Off.

Certain proposed arrangements between the Remaining TOM Group and the TOM Online Group will constitute connected transactions of the Company under the GEM Listing Rules following completion of the Proposed Spin-Off. In addition, (a) certain members of the Group have entered into certain conditional supplemental tenancy agreements dated 13 February 2004, and (b) LTWJi has entered into a new tenancy agreement dated 13 February 2004, with Beijing Oriental for the lease of certain premises in Beijing Oriental Plaza. Beijing Oriental is a connected person of the Company by virtue of it being an Associate of Cheung Kong. The Continuing Connected Transactions are conditional on the approval by the Shareholders at the EGM. As required under Rule 20.40 of the GEM Listing Rules, the vote at the EGM in respect of the Continuing Connected Transactions will be taken by poll. The aforesaid tenancy agreements do not form part of the Proposed Spin-Off.

TOM Online has conditionally adopted the Pre-IPO Share Option Plan and the Share Option Scheme. However, the approval by the Shareholders at the EGM is also required for the Pre-IPO Share Option Plan and the Share Option Scheme.

The TOM Online Board proposes to grant Options under the Pre-IPO Share Option Plan to Mr. Wang Lei Lei (the chief executive officer of TOM Online) which will represent more

than one per cent. of the total issued TOM Online Shares. This grant of Options under the Pre-IPO Share Option Plan to Mr. Wang Lei Lei will be subject to the approval (a) by the independent non-executive Directors and (b) of Shareholders (other than Mr. Wang and his Associates who are required to abstain from voting on such resolution) at the EGM.

In addition, the Company wishes to use this opportunity to refresh the 10 per cent. limit of the total number of TOM Online Shares which may be issued under the Share Option Scheme and any other schemes of TOM Online. This refreshment is also subject to the approval of Shareholders at the EGM.

Rothschild has been appointed as the independent financial adviser to advise the Shareholders on the Proposed Spin-Off. The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the terms of the Continuing Connected Transactions. In this regard, Rothschild has also been appointed by the Company as the independent financial adviser to advise the Independent Board Committee.

The Circular containing, amongst other things, further information on (a) the background to, reasons for, and effects of, the Proposed Spin-Off; (b) the Continuing Connected Transactions; (c) the Preferential Offer; (d) the Pre-IPO Share Option Plan and the Share Option Scheme; (e) the grant of Options under the Pre-IPO Share Option Plan representing more than one per cent. of the total issued TOM Online Shares to Mr. Wang Lei Lei; and (f) the refreshment of the 10 per cent. limit of the total number of TOM Online Shares to be issued under the Share Option Scheme and any other schemes of TOM Online; and a notice of the EGM will be despatched to Shareholders on 14 February 2004.

The Circular is important and requires the immediate attention of the Shareholders.

**Shareholders should note that the Company may or may not proceed with the Proposed Spin-Off in accordance with the terms set out above, or at all. A further announcement will be made as and when appropriate in respect of any material developments of the separate listings of TOM Online on GEM and/or on NASDAQ and/or any material change in the information contained in this announcement. The Board emphasises that the specific terms and timing of the Proposed Spin-Off may require certain consents and approvals, including approvals from the GEM Listing Committee, relevant regulatory authorities in the US and Shareholders, and subject to any further conditions that may be imposed by the GEM Listing Committee, relevant regulatory authorities in the US. Such consents and approvals may or may not be obtained. Shareholders and potential investors are therefore reminded to exercise caution when dealing in the Shares.**

## INTRODUCTION

Reference is made to the announcements of the Company dated 24 December 2003 and 9 February 2004.

The Board announced on 24 December 2003 that the Stock Exchange had, on 19 December 2003, granted conditional approval for the Company to proceed with the Proposed Spin-Off. In addition, the Board also announced that a formal application had been made to the Stock Exchange on 24 December 2003 for the separate listing of, and permission to deal in, the TOM Online Shares in issue and to be issued pursuant to the Global Offering on GEM.

The approval of the Stock Exchange for the Proposed Spin-Off is conditional upon:

- (1) the provision to Shareholders of assured entitlements to TOM Online Shares, either by way of a dividend in specie of existing TOM Online Shares or by way of preferred application in any offering of existing or new TOM Online Shares; and
- (2) the publication of an announcement on the proposed listing of TOM Online.

The Proposed Spin-Off satisfied condition (2) by its announcement dated 24 December 2003 and will satisfy condition (1) by the making of the Preferential Offer as part of the Global Offering.

The Company has agreed with the Stock Exchange to apply the principles of Practice Note 15 of the Main Board Listing Rules to the Proposed Spin-Off.

## **THE PROPOSED SPIN-OFF**

### **1. The Proposed Spin-Off**

The exact structure of the Proposed Spin-Off will be decided by the Board, but at present it is proposed to be effected by way of Global Offering of new TOM Online Shares which will comprise the Hong Kong Public Offer and the International Offering, and will be accompanied by a separate listing of TOM Online Shares on GEM and a separate quotation of ADSs on NASDAQ. The Global Offering will also include a preferential offering of Reserved Shares to Qualifying Shareholders as described in the section headed “Assured Entitlements” below (and as to be further described in the Prospectus).

It is presently expected that at least 25% of the then enlarged issued capital of TOM Online as at the Listing Date will be made available under the Global Offering. Details of the Global Offering (including the exact size of the Global Offering and the exact apportionment between the Hong Kong Public Offer and the International Offering) are yet to be finally determined. If the Proposed Spin-Off proceeds, pursuant to the terms of the Puccini acquisition, TOM Online will allot and issue such number of new TOM Online Shares representing the sum of US\$18.5 million at the Offer Price to Cranwood prior to the Listing Date in order to satisfy the initial consideration for the acquisition of Puccini. The terms of the acquisition of Puccini were disclosed in the Company’s circular to Shareholders dated 3 November 2003 and were approved by Shareholders at an extraordinary general meeting of the Company held on 19 November 2003. Please refer to the section headed “The Reorganisation” for further information on the Puccini acquisition. The Initial Consideration Shares to be issued to Cranwood will not form part of the Global Offering. Upon the successful conclusion of the Global Offering, TOM Online Shares will be listed on GEM and ADSs representing TOM Online Shares will be quoted on NASDAQ. It is expected that the Group’s percentage interest in the share capital of TOM Online will be reduced from the current level of 100% to the range of approximately 71.0% to 71.8% immediately following the Global Offering (without taking into account any exercise of the Over-allotment Option) because of dilution as a result of the Global Offering and the issue of TOM Online Shares in order to satisfy the initial consideration for the acquisition of Puccini as mentioned in the section headed “The Reorganisation” below. Such percentage interest may be further reduced upon the

exercise of the Over-allotment Option and any Options granted or to be granted under the Pre-IPO Share Option Plan and the Share Option Scheme.

As the Offer Price for TOM Online Shares is yet to be determined, Shareholders should also note that information and calculations appearing in this announcement relating to the potential financial effects of the Proposed Spin-Off are based on certain assumptions which may or may not materialize and are included for illustration purposes only. The Offer Price will be determined at a time closer to the Listing Date with reference to, inter alia, the then market conditions and estimated market demand for the TOM Online Shares and/or ADSs. The indicative price range per ADS to be offered under the International Offering is expected to be made available by way of an announcement on the GEM website on or about Monday, 23 February 2004 (Hong Kong time).

Shareholders should note that the Board reserves the right not to proceed with the Proposed Spin-Off if the Board considers, for any reason including, without limitation, the proposed Offer Price and/or the market conditions at the relevant time, that the Proposed Spin-Off should not proceed. Furthermore, there can be no assurance that the approval for the listing of, and permission to deal in, all the TOM Online Shares in issue and to be issued under the Global Offering on GEM will be granted by the GEM Listing Committee.

The Proposed Spin-Off and the Global Offering is conditional upon the satisfaction of certain conditions as set out in paragraph 11 below. If any of these conditions are not fulfilled or waived (if applicable) prior to the dates and times to be specified, the Global Offering will lapse and the Proposed Spin-Off and the Global Offering will not proceed.

Further announcements will be made by the Company as and when appropriate to keep Shareholders informed of material developments in relation to the Proposed Spin-Off.

**Shareholders should exercise caution when dealing in the Shares. There is no assurance that the Proposed Spin-Off will be completed successfully or at all.**

## **2. Separate listings of TOM Online Shares**

The Shares will continue to be listed on GEM after the implementation of the Proposed Spin-Off. The listing of the TOM Online Shares on GEM and the inclusion of ADSs for quotation on NASDAQ are conditional upon the conditions stated in paragraph 11 below.

An application was made to the GEM Listing Committee on 24 December 2003 for the listing of, and permission to deal in, the TOM Online Shares in issue and any new TOM Online Shares to be issued, as will be set out in the Prospectus.

Subject to the granting of the listing of, and permission to deal in, TOM Online Shares on GEM as well as compliance with the stock admission requirements of Hong Kong Clearing, the TOM Online Shares will be accepted as eligible securities by Hong Kong Clearing for deposit, clearance and settlement in CCASS with effect from the Listing Date or such other date as may be determined by Hong Kong Clearing. Settlement of transactions between participants of the Stock Exchange on any trading day is required

to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **3. Reorganisation overview**

In anticipation of the Proposed Spin-Off, the TOM Online Group was formed in September 2003 pursuant to a corporate reorganisation of the Group which resulted in the transfer of a significant part of the Company's online media division to TOM Online. TOM Online, a wholly-owned subsidiary of the Company, which was incorporated on 28 August 2001 under the laws of the Cayman Islands, did not have any material assets or business operations until shortly before this Reorganisation.

Prior to the Reorganisation, the Company's online media division consisted of twenty-five entities as follows:

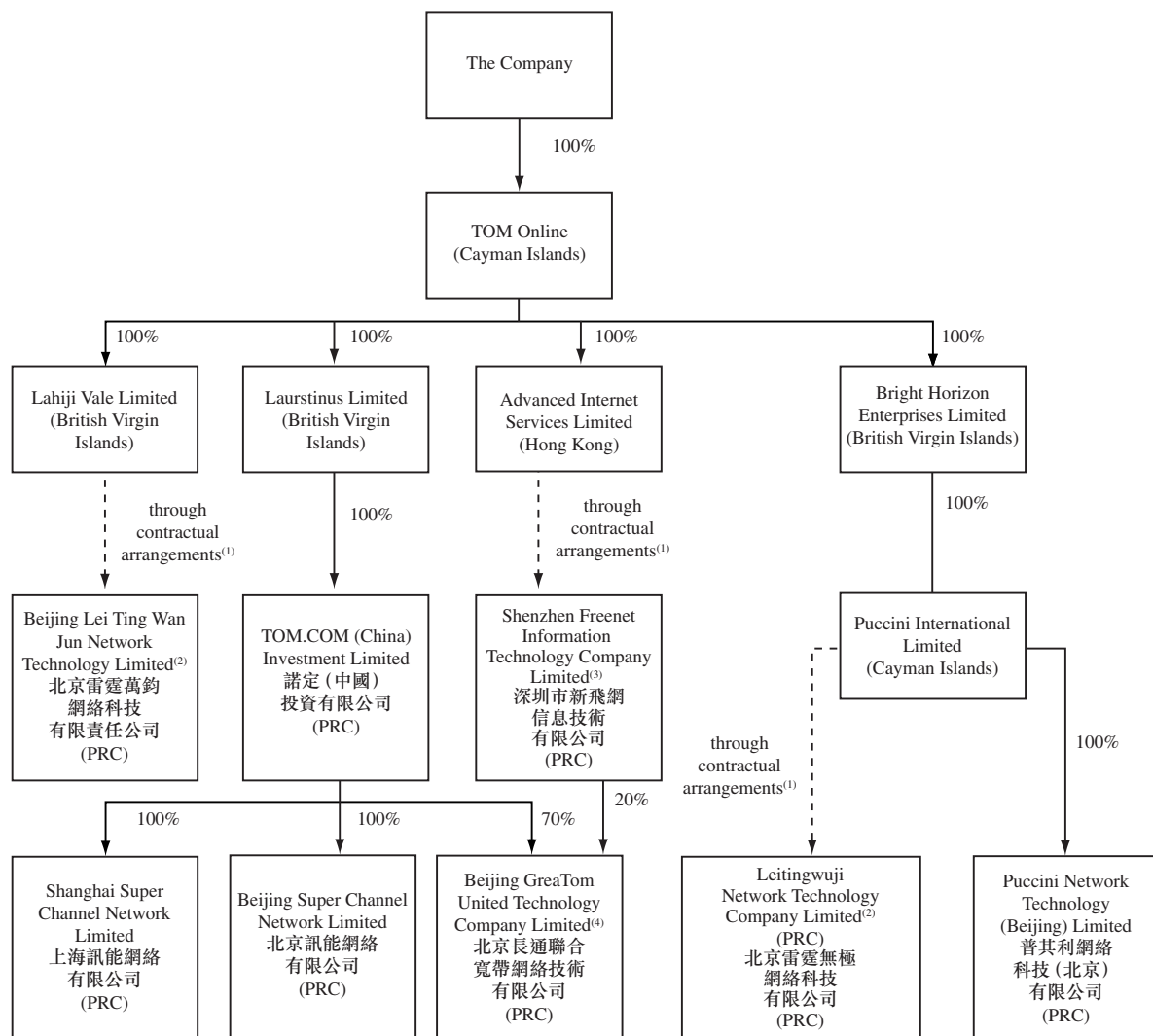
- (i) Core Internet business entities: nine entities providing a wide range of Internet services, wireless value-added services, online advertising and commercial enterprises solutions in the PRC.
- (ii) Non-core Internet business entities: six entities that conducted certain portal and advertising businesses in the PRC. Most of their operations have been integrated with or moved to the Company's core Internet business entities.
- (iii) Excluded business entities (the "Excluded Businesses"): ten entities which are engaged in either non-portal business within the PRC, online business outside the PRC or are passive investments of the Company.

The Reorganisation involved the transfer to TOM Online by the Company of its interests in its nine core Internet business entities. For further details of these entities, the other entities within the Company's online media division and the Reorganisation, see the section headed "The Reorganisation" below.

In addition, on 19 November 2003, TOM Online acquired Puccini from Cranwood. Puccini provides wireless interactive voice response ("IVR") services through LTWJi. Further details of the companies in the TOM Online Group which were acquired pursuant to the Puccini acquisition are set out in the section headed "The Reorganisation" below.

Following the Reorganisation and the acquisition of Puccini, the corporate structure of TOM Online consists of fourteen entities, which include the nine core Internet business entities of the online media division of the Company.

The structure of the TOM Online Group upon completion of the Reorganisation and the acquisition of Puccini, but before the issue of the Initial Consideration Shares to Cranwood and the implementation of the Proposed Spin-Off is as follows:



(1) TOM Online does not have any direct equity interests in Beijing Lei Ting, Shenzhen Freetnet or LTWJi. Through certain of its subsidiaries, TOM Online has entered into a series of contractual arrangements with each of these entities and their respective shareholders to enable it to enjoy the economic benefit in such entities.

(2) Mr. Wang Lei Lei, a non-executive Director of the Company and the chief executive officer and an executive director of TOM Online, owns 20% and 80% of the equity interest in Beijing Lei Ting and LTWJi respectively. He is also the chairman of the board of directors and president of Beijing Lei Ting. Ms. Wang Xiu Ling\* owns 80% and 20% of the equity interest in Beijing Lei Ting and LTWJi, respectively. Ms. Wang Xiu Ling\* is not related to Mr. Wang Lei Lei.

(3) Ms. Wang Xiu Ling\* and Mr. Sheng Yong# own 70% and 30% of the equity interest in Shenzhen Freetnet, respectively.

\* Ms. Wang Xiu Ling is independent of the Group being neither an employee of the Remaining TOM Group nor the TOM Online Group nor related to the senior management of the Remaining TOM Group or the TOM Online Group.

# Mr. Sheng Yong is an employee of the TOM Online Group.

(4) The remaining 10% equity interest in GreaTom is held by Great Wall Technology Company Ltd., a PRC company whose shares are listed on the main board of the Stock Exchange.

#### 4. Information on the TOM Online Group

TOM Online is one of the leading Internet companies in the PRC, providing value-added multimedia products and services. TOM Online delivers its products and services from its Internet portal to its users through their mobile phones and through its websites. TOM Online's primary business activities include the provision of wireless value-added services, online advertising and commercial enterprise solutions.

TOM Online's Internet portal is the foundation for its primary business activities. TOM Online provides content, products and services through the Internet and wireless communications networks. TOM Online launched its Internet portal in July 2000 and has since focused on the development and the provision of content products and services to users. This content, which is both developed in-house and obtained from third party content providers, is edited, redesigned and repackaged through TOM Online's content management system for its different products and services.

##### (i) *Wireless value added services*

TOM Online's wireless value-added services include both wireless data services and wireless IVR services.

##### (a) Wireless data services

TOM Online began providing wireless data services in the second half of 2001. TOM Online's wireless data services include short messaging services ("SMS"), multimedia messaging services ("MMS") and wireless access protocol ("WAP") services. Through these services, TOM Online provides download, information and community-oriented products, such as news headlines, sports news, games, ring tones, ring back tones, dating and wallpapers. Users pay for TOM Online's wireless data services on either a monthly subscription or a per message basis. TOM Online provides its wireless data services to users in the PRC through China Mobile's Monternet platform and China Unicom's UNI-Info platform, and it shares revenues from these services with China Mobile and China Unicom. TOM Online was one of the first wireless data service providers to jointly develop and launch MMS and WAP services with China Mobile.

##### (b) Wireless IVR services

On 19 November 2003, TOM Online acquired the entire issued share capital of Puccini, which provides wireless IVR services through LTWJi. Wireless IVR services are a new category of wireless value-added service that allow users to access pre-recorded information from their mobile phones and to interact with other users through chat and dating services. This acquisition is expected to create synergies between TOM Online's wireless data services and LTWJi's wireless IVR services. Following this acquisition, TOM Online is one of the few Internet portal companies in the PRC that provides wireless IVR services. For a description of the terms of the acquisition of Puccini and a discussion of LTWJi's business, please refer to the Company's circular to Shareholders dated 3 November 2003.



(ii) *Online advertising*

TOM Online's online advertising services, which it has been offering since 2001, consist of placing advertisements on its websites in various forms, such as banners, link logos and pop-up boxes. As TOM Online provides various free online services on its websites and since users access its wireless data services through its websites, the user traffic on its websites has increased, which makes TOM Online's online advertising services more attractive to its clients. Prior to the Reorganisation, TOM Online's offline advertising business accounted for the majority of its advertising revenue, but following the Reorganisation, most of TOM Online's offline advertising business is no longer part of the TOM Online Group.

At the beginning of 2003, TOM Online began increasing its focus on developing its online advertising business. As TOM Online's wireless value-added services target young and trendy users, TOM Online believes that it is able to attract companies in industries that cater to the younger and more affluent market to advertise on its websites. In addition, TOM Online has established relationships with several leading advertising agencies to promote and market its online advertising services to their clients. TOM Online will continue to engage in offline advertising activities only to the extent that they are bundled with online advertising as it is not in TOM Online's commercial interests to, and accordingly it will not, turn away customers' requests for the bundling of offline advertising with online advertising services. TOM Online will outsource any offline advertising related services to the Remaining TOM Group through the media services agreement (as described under the section headed "Proposed Continuing Connected Transactions" below) or to third parties.

(iii) *Commercial enterprise solutions*

TOM Online's commercial enterprise solutions, which it has been operating since 2001, provides technical and consulting services to cater for the Internet-related computer hardware and software needs of its clients. TOM Online provides its clients with integrated enterprise solutions in the areas of web design and maintenance, online advertising management systems, server hosting, billing and management systems, e-commerce and fee-based e-mail. As part of its integrated enterprise solutions, TOM Online offers its client various services, including assessment of computer hardware and software requirements, purchase and installation of computer hardware and software, development and integration of software applications and maintenance of such hardware and software.

TOM Online's commercial enterprise solutions leverage its expertise in internet and wireless value-added services by offering business system solutions to corporate and government entities. TOM Online helps its clients employ wireless data services, such as SMS, to improve their internal and external communication systems. TOM Online's clients can also use its solutions to implement customer service systems, which enable them to promote their products and provide timely information and updates to their customers through wireless data services.

## 5. Information on the Remaining TOM Group

The Company is a leading Chinese language cross-media company in Greater China distributing its content and services through four distribution platforms:

- (i) Internet;
- (ii) publishing (print media);
- (iii) outdoor media; and
- (iv) sports and entertainment.

These distribution platforms are currently operated by the following divisions of the Company:

- *The Online Media Division* – operates the Internet distribution platform which primarily consists of the business operations of the TOM Online Group (as described above).
- *The Publishing Division* – one of the leading publishers in Greater China, consisting of magazine and book publishing, sales of print advertising and other related products in the PRC, Hong Kong and Taiwan, with over 50 magazines with total circulation of 70 million copies and 18,000 book titles with 15 million books published annually.
- *The Outdoor Media Division* – consisting of one of the PRC’s largest outdoor media networks (comprising billboards, bus stands, bicycle stands, taxi stands, lightboxes and unipoles, with over 190,000 square metres of advertising space on 10,000 units in 5,000 prime locations across PRC) and a leading outdoor advertising company in the PRC.
- *The Sports & Entertainment Division* – consisting of event organization, advertising and sponsorship sales, sports television programme production and syndication, audio and video products distribution and television broadcasting operations in the PRC and Hong Kong, it is the PRC’s largest domestic sports marketing company with TV programmes syndicated over 50 TV channels, 25 million average daily viewership and 20 million audio-visual products distributed annually.

After the Proposed Spin-Off, the Remaining TOM Group will continue to focus on the publishing (print media), outdoor media and sports and entertainment businesses, together with the Excluded Businesses which are engaged in Internet related activities (see also “Relationship of the TOM Online Group with the Remaining TOM Group” in paragraph 9 below), while the TOM Online Group will continue to focus on the Internet business primarily in the PRC at this time.

The Directors consider that, with the separate listing of TOM Online, the resources of the Group, including management time, cash and otherwise, can be dedicated entirely to the growth and development of the businesses of the Remaining TOM Group, but at the same time still benefit from its majority shareholding in TOM Online. For further details see “Reasons for and benefits of the Proposed Spin-off” in paragraph 7 below.

## **6. Intended use of proceeds**

TOM Online intends to use the anticipated net proceeds from the Global Offering for the following purposes:

- for enhancing and expanding TOM Online's content and applications for wireless value-added services;
- for research and development of new technologies and future upgrading of TOM Online's existing technologies and infrastructure;
- for sales and marketing activities;
- for a portion of any contingent payments owed in connection with the acquisition of Puccini (however, if at the time of such payments, TOM Online has sufficient internal or other resources, all or a portion of such payments may be satisfied by such resources);
- for funding future potential acquisitions and strategic alliances in the wireless value-added services, content and Internet industries in the PRC, although no material future potential acquisitions or strategic investments are pending; and
- any remaining amounts for general corporate purposes.

To the extent that the net proceeds from the Global Offering are not immediately applied for the above purposes, TOM Online intends to use them for its working capital, to purchase US Treasury debt securities and other short-term investment grade debt securities or to deposit the proceeds into interest-bearing bank accounts. In the event that there are any material changes or modifications to the use of proceeds, an appropriate announcement will be made by TOM Online.

The indicative price range per ADS to be offered under the International Offering and the indicative amount for the use of proceeds are expected to be made available by way of an announcement on the GEM website on or about Monday, 23 February 2004 (Hong Kong time).

## **7. Reasons for and benefits of the Proposed Spin-Off**

The Board believes that the Proposed Spin-Off will bring a number of benefits to both the Company and TOM Online. The Company will be able to realise the value of its investment in the businesses of TOM Online, return value to its Shareholders in the form of more liquid securities, as well as allow the Company to focus on developing its other core businesses.

The benefits of the Proposed Spin-Off to the Company include:

- enhancing the Group's financing flexibility, as the Group has experienced rapid expansion from organic growth and acquisitions and such expansion is expected to continue;
- enhancing the net tangible asset value and gearing position of the Group;

- enabling the management team of the Company to be more focused on building its cross-media platform, enhancing the decision-making process and its responsiveness to market changes;
- allowing the Company and its Shareholders to realise its investment in TOM Online;
- strengthening the management structure and corporate governance of the Group as a whole and better facilitation of the Group's expansion; and
- improving the operational and financial transparency of TOM Online and providing investors, the investment market and rating agencies with greater clarity on the businesses and financial status of the Company and TOM Online.

The benefits of the Proposed Spin-Off to TOM Online include:

- providing investors with an opportunity to value TOM Online as a pure Internet company and to invest separately in TOM Online;
- allowing TOM Online to establish its own shareholder base;
- providing TOM Online with added flexibility in funding its operations and capital expenditures, giving TOM Online the ability to tailor its capital structure to meet its business funding requirements and greater access to capital markets as a stand-alone entity;
- providing incentives to management and staff of the TOM Online Group to develop its business by making the performance of its business operations more transparent through the separate bench-marking from the stock performance of TOM Online Shares and linking part of its management's remuneration to its performance through share options;
- enabling the management team of TOM Online to be more focused on its business, enhancing the decision-making process and its responsiveness to market changes; and
- enhancing the profile of TOM Online, which may improve TOM Online's ability to attract and retain highly qualified professionals in its business.

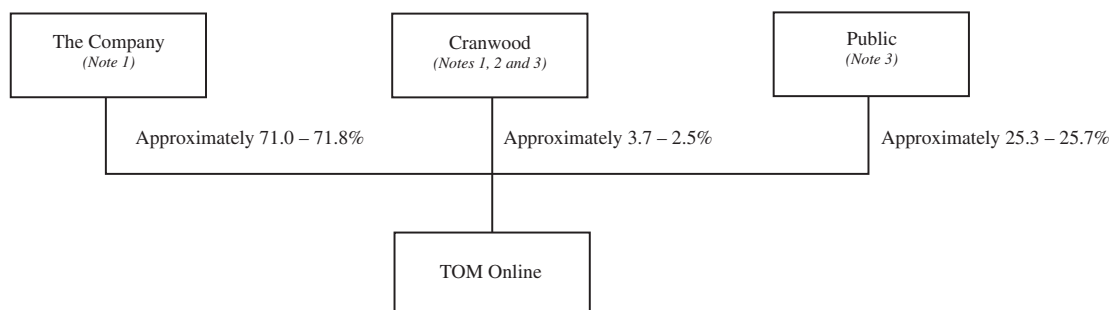
## **8. Effects of the Proposed Spin-Off**

### *(i) Shareholding structure as at the Latest Practicable Date*

As at the Latest Practicable Date, TOM Online is a wholly-owned subsidiary of the Company.

(ii) *Proposed shareholding structure after the Proposed Spin-Off*

A simplified shareholding structure of TOM Online immediately following completion of the Proposed Spin-Off (taking into account the issue of the Initial Consideration Shares to Cranwood and assuming that the Over-allotment Option is not exercised, but without taking into account any TOM Online Shares which may be taken up as Assured Entitlements) is set out as follows:



*Notes:*

1. Following determination of the Offer Price and prior to the Listing Date, in order to satisfy the initial consideration for the acquisition of Puccini, TOM Online will issue and allot new TOM Online Shares representing the sum of US\$18.5 million at the Offer Price to Cranwood. The range of the number of Initial Consideration Shares to be issued by TOM Online to Cranwood as set out in the corporate chart above is calculated on the basis of the preliminary estimated gross proceeds and net proceeds to be in the range of approximately HK\$1,000 million to HK\$1,460 million and approximately HK\$840 million to HK\$1,260 million, respectively for the Proposed Spin-Off.
2. Cranwood is deemed to be a management shareholder. Accordingly, it is an initial management shareholder under the GEM Listing Rules and will also be a connected person of TOM Online from the Listing Date.
3. The minimum prescribed percentage of TOM Online Shares in public hands immediately following completion of the Global Offering (being 25% if TOM Online's market capitalisation at the time of listing is less than HK\$4,000 million, and the higher of (i) the percentage that would result in the market value of the securities to be in public hands equal to HK\$1,000 million (at the time of listing) and (ii) 20%, if it is more than HK\$4,000 million) and this will include the TOM Online Shares issued to investors who subscribe for new TOM Online Shares pursuant to the Global Offering, but this will not include the Initial Consideration Shares or any other TOM Online Shares held by Cranwood. For the purposes of calculating the percentage of TOM Online's share capital in public hands under Rule 11.23(1), Cranwood will not be a member of "the public" immediately following completion of the Global Offering because it is an initial management shareholder.

(iii) *Hong Kong stamp duty*

Under current legislation, the implementation of the Proposed Spin-Off, of itself, does not attract any Hong Kong stamp duty for Shareholders.

Dealings in TOM Online Shares will be subject to Hong Kong stamp duty.

(iv) *General*

In view of the individual circumstances of each Shareholder, it is inappropriate and impracticable for the Board to advise the Shareholders on their tax position. Shareholders are recommended to consult their own professional advisers as to the taxation implications of the Proposed Spin-Off. It is emphasized that none of the Company, TOM Online or their respective professional advisers or any other parties involved in the Proposed Spin-Off or their respective directors will accept any responsibility for any tax effect on, or liabilities of, the Shareholders.

## 9. Relationship of the TOM Online Group with the Remaining TOM Group

Following the Proposed Spin-Off, TOM Online will continue to be a subsidiary of the Company. There will be a clear delineation between the businesses of the Remaining TOM Group and the TOM Online Group. The TOM Online Group focuses on the provision of content, products and services through the Internet and wireless communications networks while the Company focuses its business in being a Greater China-based cross-media company. The TOM Online Group will function independently of the Remaining TOM Group with respect to its businesses and operations, directorship and management.

After the listing of TOM Online on GEM, certain entities of the Remaining TOM Group will continue to operate websites and provide wireless value-added services and online advertising outside the PRC which are ancillary to the business of the Company (i.e. they serve to enhance the divisions of the Remaining TOM Group and/or are for informational purposes only). The revenues derived from the provision of such services are insignificant. The Company will enter into a deed of non-competition with TOM Online to ensure the clear delineation of their respective businesses as described in the section headed “Non-competition undertakings” below.

We set out below a brief discussion on the delineation of business between those of the TOM Online Group and the Remaining TOM Group and areas of businesses of the TOM Online Group and of the Remaining TOM Group’s where there may be competition.

- *Wireless Value-Added Services.* The Remaining TOM Group does not provide any wireless value-added services in the PRC and only has insignificant wireless value-added services outside the PRC which are ancillary to its Publishing Division in Taiwan. Pursuant to the terms of the deed of non-competition, the Remaining TOM Group will not engage in such business in the PRC in the future. Please refer to the paragraph headed “Non-competition undertakings” below. The Remaining TOM Group can provide Internet-related services including wireless value-added services in Hong Kong through its Hong Kong Portal. The TOM Online Group’s wireless value-added services include SMS, MMS, and WAP services through which it provides a variety of download, information and community-oriented products such as news headlines, games, dating and ring tones. As TOM Online delivers its products and services to users in the PRC through the networks of mobile telecommunications operators, China Mobile and China Unicom, and it relies upon the mobile telecommunications operators to bill and collect payment for the products and services it provides from their mobile phone subscribers, its wireless value-added services can only be utilized by users who subscribe to the mobile phone services of the mobile telecommunications operators in the PRC. Therefore, if the businesses retained by the Remaining TOM Group were to start offering wireless value-added services outside of the PRC, the Remaining TOM Group would be unable to bill and collect any payment from mobile phone users in the PRC, thus creating a natural geographic delineation (that is, it would be difficult for the Remaining TOM Group to offer such services to TOM Online’s customers in the PRC). Further, the addresses for TOM Online’s websites and the Hong Kong Portal are different and supported by different servers.

- *Online Advertising.* Both the Remaining TOM Group and the TOM Online Group engage in the advertising business but will focus on separate advertising revenue streams. The Remaining TOM Group will focus on traditional forms of advertising, such as publishing, broadcasting, event management and outdoor media, as well as agency business. The TOM Online Group will focus on online advertising in the PRC, such as banners, links logos, and pop-up boxes. Occasionally, the Company's traditional advertising clients may request online advertising services as part of larger integrated marketing campaigns which involve both offline and online media but the Company's sales efforts will be focused on the provision of traditional advertising services and its online advertising business will remain ancillary to that focus. After the completion of the Global Offering, the Company will continue to provide online advertising services primarily in Hong Kong and Taiwan as part of a larger integrated advertising solution and the revenues that the Company may earn from such online business will be limited under the deed of non-competition to be entered into between TOM Online and the Company (see "Non-competition undertakings"). Requests by such clients to provide online advertising services in the PRC will be referred to either TOM Online on a non-exclusive basis pursuant to the online media services agreement (see "Proposed Continuing Connected Transactions") or to third parties.

For the nine months ended 30 September 2003, such online advertising services accounted for less than 0.2% of the total revenue of the businesses retained by the Company. For the same period, TOM Online's online advertising revenues accounted for about 2.5% of the total revenue of the TOM Online Group and accounted for approximately 86% of the online advertising revenue of the Group. In connection with the Proposed Spin-Off, the Company will provide an undertaking to TOM Online that the Company will not engage in online activities that compete with TOM Online's existing business which results in the revenue generated from such online activities in aggregate to exceed 5% of the revenue of the Company in any financial year. Please refer to the paragraph headed "Non-competition undertakings" below.

- *Commercial Enterprise Solutions.* The businesses retained by the Company do not engage in commercial enterprise solutions.
- *Hong Kong Portal.* The Hong Kong Portal was created at the time of the Company's listing on GEM in 2000 and the operation of the portal has reduced over the years such that its current functions are to provide information and to enhance other revenue-generating businesses of the Group, rather than to generate revenues of its own. TOM Online's principal website, [www.tom.com](http://www.tom.com), and the Company's website, [hk.tom.com](http://hk.tom.com), are clearly delineated. Both websites have different design and layout and offer different content and services. For example, TOM Online's websites offers online shopping, wireless value-added services, music download, chat rooms and weblogs, which are not being provided on the Hong Kong Portal. Instead the Hong Kong Portal provides infotainment, community and news portal, and content rich channels. The Company does not intend to actively further develop the Hong Kong Portal for commercial activities but only for the purposes of providing information and enhancing other businesses of the Remaining TOM Group. Pursuant to the deed of non-competition, the Company will grant TOM Online a call option exercisable within 3 years from the Listing Date which would allow TOM Online

to acquire the Hong Kong Portal at a fair market value to be determined by an independent valuer appointed by TOM Online and the Company at the time of TOM Online's exercise of the option. The revenue generated from the Hong Kong Portal was HK\$1.25 million for the six months ended 30 June 2003, consisting only of online advertising revenue and representing approximately 0.2% of the then total revenue of the Group.

- *The Company's operation of websites.* Certain entities of the Company operate websites and some of these websites offer wireless value-added services outside the PRC (such as ring tone download services), which cannot be utilized by persons who subscribe to the mobile phone services of the mobile telecommunications operators in the PRC, as discussed in the paragraph entitled "Wireless Value-Added Services" above, and online advertising (for information on online advertising provided by the Company, please refer to the paragraph entitled "Online advertising" above). Such revenue from wireless value-added services and online advertising amounted to HK\$107,000 and HK\$5,996,000, respectively, for the year ended 31 December 2002 and amounted to HK\$223,000 and HK\$1,889,000, respectively, for the nine months ended 30 September 2003. The Company operates websites such as tomgroup.com, tomreport.com and hk.tom.com, which serve as a venue to provide the Company's clients or potential clients with information about the Company's operations and services. Furthermore, one of the websites operated by the Company (being spp.com.tw) offers wireless value-added services in Taiwan and online advertising. For example, Sharp Point (one of the Company's publishing companies in Taiwan) publishes books to inform its readers on how to download or create their own ring tones and therefore offers ring tone downloads from spp.com.tw. The revenue generated to the Company therefrom is insignificant, having generated HK\$107,000 and HK\$223,000 for the year ended 31 December 2002 and for the nine months ended 30 September 2003, respectively. These websites and products and services provided by the Company therefrom are ancillary to and serve to enhance the business of the Company. For the nine months ended 30 September 2003, the wireless value-added services of the Company accounted for approximately 0.07% of the wireless value-added services revenue of the TOM Online Group. The entities of the Remaining TOM Group would subsist and not be adversely affected if their websites cease to exist. TOM Online provides wireless value-added products and services, online advertising and commercial enterprise solutions through the portal or are portal related services of the TOM Online Group. Consequently, substantially all of TOM Online's revenue is derived from the services provided through the Internet. Certain of the Company's passive investments operate websites. The Company does not hold a majority stake in such companies and some of them operate online businesses outside the PRC. Pursuant to the terms of the deed of non-competition, the Company will agree to limit the revenue derived from Ancillary Online Services (as defined below) in accordance with certain caps, for further details, please refer to the section entitled "Non-competition undertakings" below.
- *Directorship and Management.* The Tom Online Board consists of six executive directors and five non-executive directors, including two independent non-executive directors. As only three of TOM Online's non-executive directors and one of its executive directors are Directors of the Company, a majority of its board will have no connection with the Company (or its controlling shareholders) even if the independent non-executive directors of TOM Online are not taken into account.



In order to reinforce the delineation in the corporate entities of the Company and the TOM Online Group, the Company has proposed to change its name to “TOM Group Limited” and to adopt a Chinese identifying name of “TOM 集團有限公司” upon the change of name becoming effective. The Board considers that the new name will better reflect the diversified nature of the Company’s distribution platforms. For further information on the proposed change of name please see the section headed “Proposed Change of Name of the Company” below.

Furthermore, any hyperlinks or linkages which might exist between websites of TOM Online and the Company have been removed. Going forward, if any such linkages (e.g. in the form of banner advertising) are maintained, it would be charged to the relevant party at normal commercial terms on an arm’s length basis.

Following the Listing Date, all transactions between members of the Remaining TOM Group and members of the TOM Online Group will be subject to the connected transaction requirements set out in Chapter 20 of the GEM Listing Rules. For further information on certain transactions which will constitute non-exempted connected transactions upon completion of the Proposed Spin-Off, see the section headed “Proposed Continuing Connected Transactions” below.

In connection with the Proposed Spin-Off, the Remaining TOM Group will give certain indemnities to the TOM Online Group in relation to certain tax liabilities which might be payable by the TOM Online Group in respect of any income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received on or before the date on which the Global Offering becomes unconditional, as well as certain taxation claims under certain estate duty legislation.

## **10. Non-competition undertakings**

In connection with the Proposed Spin-Off, and in order to assist with a clear delineation between the businesses of the Remaining TOM Group and the TOM Online Group, the Company and TOM Online will enter into a deed of non-competition to the effect that:

- (i) the Company undertakes to TOM Online that, without TOM Online’s prior written consent, the Remaining TOM Group will not, directly or indirectly, within the PRC engage in, invest in, carry on, participate in or have any interest in, any online activities that compete with TOM Online’s online businesses in the PRC (including TOM Online’s wireless value-added services, online advertising and commercial enterprise solutions);
- (ii) if any member of the Remaining TOM Group identifies or is offered by a third party any online business opportunity (a) within the PRC, that member of the Remaining TOM Group will give TOM Online a right of first refusal to such online business opportunity, and should TOM Online decline and a member of the Remaining TOM Group choose to engage in such business and subsequently dispose of its interest in the business created from such business opportunity, the Remaining TOM Group shall give TOM Online right of first refusal to acquire its interest, which will expire on the fifth anniversary date of the deed of non-competition agreement; or (b) outside the PRC, that member of the Remaining TOM Group will give TOM Online a right of first refusal to such online business opportunity; and

- (iii) as part of its principal businesses (comprising outdoor media, print media, sports and entertainment, and any other new business divisions that the Company may have from time to time) (“Business Divisions”), the Remaining TOM Group may continue to engage in certain online services ancillary to their Business Divisions (i.e. they serve to enhance the Business Divisions and/or are for informational purposes only) (“Ancillary Online Services”) so long as:
- (a) the revenue earned for the Ancillary Online Services of any Business Division (excluding the online services provided through the Hong Kong Portal) will not exceed 10% of the total revenue earned from that division in the same financial year;
  - (b) the revenue earned for the Ancillary Online Services of all Business Divisions (including online services provided via the Hong Kong Portal) will not exceed 5% of the total revenue of the Group (but excluding the revenue attributed to the TOM Online Group which is consolidated into the total revenue of the Group) in the same financial year; and
  - (c) the revenue earned for the Ancillary Online Services of all Business Divisions (including online services provided via the Hong Kong Portal) will not exceed 15% of the total revenue of the TOM Online Group in the same financial year.

In addition, pursuant to this deed, the Company will grant us a call option exercisable within 3 years from the Listing Date which will allow TOM Online to acquire the Hong Kong Portal at a fair market price to be determined by an independent valuer to be appointed by the parties at the time of the exercise of the call option by TOM Online.

The deed of non-competition does not place any restriction on the Excluded Businesses (other than the Hong Kong Portal), nor does it restrict the Company from undertaking any television or broadcasting business, any ISP business or any investments in either listed companies which engage in online activities (provided the Company’s interest does not exceed 5%) or any investment funds (provided that any such investment fund does not take a majority interest in any online investment and that such online investment shall not be operated by the Company).

The deed of non-competition will take effect on the Listing Date and will terminate on the later of (i) the date the Company ceases to hold, directly or indirectly, 30% or more of TOM Online’s issued share capital and (ii) the second anniversary of the date of the deed of non-competition. Given that the Remaining TOM Group and the TOM Online Group have different and separate focus in terms of operations, markets and business plans, the Directors do not consider that the non-competition undertakings will have any adverse impact on the businesses and operations of the Remaining TOM Group or the TOM Online Group.

Please note that the terms of the deed of non-competition are subject to finalisation by the parties. The detailed terms of the deed of non-competition will be set out in the Prospectus.

## 11. Conditions

TOM Online is regarded as a major subsidiary of the Company under the GEM Listing Rules and dilution in the Company's equity interests in TOM Online is expected to be material after the implementation of the Proposed Spin-Off and is also expected to constitute a major transaction under the GEM Listing Rules. The Proposed Spin-Off and the Global Offering will therefore be conditional on, among other things, the following:

- (a) the Shareholders passing the ordinary resolution at the EGM to approve the Proposed Spin-Off;
- (b) the GEM Listing Committee granting approval for the listing of, and permission to deal in, the Initial Consideration Shares and all the TOM Online Shares in issue and to be issued pursuant to the Global Offering, the Pre-IPO Share Option Plan and the Share Option Scheme;
- (c) the registration statement for the securities of TOM Online which has been filed with the US SEC becoming effective and the NASDAQ granting approval for the inclusion of the ADSs for quotation on NASDAQ; and
- (d) the obligations of the underwriters, under the underwriting agreements to be entered into between, among others, the Company, TOM Online, the Joint Global Coordinators and the underwriters in respect of the Global Offering (the "Underwriting Agreements") becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by or on behalf of the underwriters) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise, on or before the dates and times to be specific therein.

If these or any other applicable conditions are not fulfilled or waived (if applicable) prior to the dates and times to be specified, the Global Offering will lapse and a notice will be published by TOM Online and/or the Company as soon as practicable after such lapse.

**As the listing of TOM Online Shares and ADSs pursuant to the Proposed Spin-Off and the Global Offering is subject to, amongst other things, the state of the equity markets, the approvals of the GEM Listing Committee and/or NASDAQ, the relevant United States regulatory process, the approval of Shareholders and the final decision of the Board, the Proposed Spin-Off may or may not proceed. In particular, there is no assurance that approval for the listing of securities of TOM Online will be granted by the GEM Listing Committee and/or NASDAQ.**

## FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF

Following the implementation of the Proposed Spin-Off and Global Offering, the net tangible asset value of the Company will be increased as a result of the issue by TOM Online of the Offer Shares at an expected price above its underlying net tangible asset value. The Company's interest in TOM Online will be reduced from 100% to approximately in the range between 71.0% and 71.8% pursuant to the issue of the Initial Consideration Shares to Cranwood and the Global Offering (assuming that the Over-allotment Option is not exercised).

## Effect on net tangible assets and net asset value

The Proposed Spin-Off will result in a net increase in the unaudited pro forma adjusted combined net tangible asset value of the Group from approximately HK\$411.7 million or 10.61 HK cents per Share to the range of approximately HK\$968.4 million to HK\$1,278.1 million or to the range of approximately 24.97 HK cents to 32.95 HK cents per Share. It will also result in a net increase in the unaudited pro forma adjusted combined net asset value of the Group from approximately HK\$1,576.1 million or 40.64 HK cents per Share to the range of approximately HK\$2,138.3 million to HK\$2,447.9 million or to the range of approximately 55.14 HK cents to 63.12 HK cents per Share.

	<i>HK\$ million</i>	<i>Per Share HK cents (Note 3)</i>
<i>(i) Effect on net tangible assets</i>		
Unaudited pro forma adjusted combined net tangible assets of the Group before the Proposed Spin-Off ( <i>Note 1</i> )	411.7	10.61
Increase in the net tangible asset value of the Group arising from the Proposed Spin-Off ( <i>Note 2</i> )	556.7 – 866.4	14.36 – 22.34
Unaudited pro forma adjusted combined net tangible assets of the Group immediately following the Proposed Spin-Off	968.4 – 1,278.1	24.97 – 32.95
<i>(ii) Effect on net assets</i>		
Unaudited pro forma adjusted combined net assets of the Group before the Proposed Spin-Off ( <i>Note 1</i> )	1,576.1	40.64
Increase in the net asset value of the Group arising from the Proposed Spin-Off ( <i>Note 2</i> )	562.2 – 871.8	14.50 – 22.48
Unaudited pro forma adjusted combined net assets of the Group immediately following the Proposed Spin-Off	2,138.3 – 2,447.9	55.14 – 63.12

**The increase in the net tangible asset and net asset value of the Group arising from the Proposed Spin-Off are calculated based on a preliminary estimated range of valuation for the Proposed Spin-Off.**

*Notes:*

1. The unaudited pro forma adjusted combined net tangible assets and net assets of the Group before the Proposed Spin-Off are based on the audited net tangible assets and net assets of the Group as at 30 June 2003, adjusted to reflect certain events which have taken place since 30 June 2003, including among others, the Share placement and Issue of the Convertible Bonds and the effect of the acquisitions announced and/or completed by the Company, including among others the acquisitions of CETV and Puccini.
2. Increase in the net tangible asset value and net asset value of the Group arising from the Proposed Spin-Off are calculated on the basis of the following key assumptions:
  - a. The net proceeds from the Proposed Spin-Off are estimated to be in the range of approximately HK\$840 million to HK\$1,260 million (assuming the Over-allotment Option is not exercised).
  - b. The Proposed Spin-Off was completed on 30 September 2003.
  - c. The acquisition of Puccini was completed on 19 November 2003.
  - d. The issue of the Convertible Bonds was completed on 28 November 2003.
  - e. The calculation excludes the operating results of the Group subsequent to 30 September 2003.
  - f. TOM Online will allot and issue new TOM Online Shares representing the sum of US\$18.5 million at the Offer Price to Cranwood prior to the Listing Date in order to satisfy the initial consideration for the acquisition of Puccini.
  - g. The unaudited consolidated net assets of the TOM Online Group as at 31 December 2003, which will be included in the Circular, is used in the calculation.
  - h. The difference between the increase in the net asset value and the increase in the net tangible asset value of the Group arising from the Proposed Spin-Off is resulted from the decrease in the Group's share of negative goodwill of HK\$19,169,000 arising from the acquisition of Puccini.
3. The unaudited pro forma adjusted combined net tangible asset and net asset value per Share of the Group before and immediately following the Proposed Spin-Off are based on 3,878,261,817 Shares in issue as at the Latest Practicable Date.

### **Effect on gearing position of the Group**

As disclosed in the audited consolidated balance sheet of the Group as at 30 June 2003 contained in the circular to Shareholders dated 3 November 2003, the Group had shareholders' equity of approximately HK\$332.4 million and borrowings (net of cash and bank balances) (the "net borrowings") of approximately HK\$592.9 million. The gearing ratio of the Group (calculated as net borrowings to shareholders' equity) as at 30 June 2003 was approximately 1.78 times. Taking into account the net proceeds of HK\$996.3 million from a share placement of TOM Shares on 3 July 2003 and the net increase in borrowings of approximately HK\$31.2 million arising from the issuance of the Convertible Bonds on 28 November 2003, the Group's unaudited adjusted net cash position would be approximately HK\$372.2 million. Immediately after the Global Offering and taking into account the lower end of the range of estimated net proceeds of approximately HK\$840 million to be raised from the Global Offering, the Group's net cash position would be further increased to approximately HK\$1,212.2 million.

### **Effect on earnings**

Following the implementation of the Global Offering, the Company's interest in TOM Online Group will be reduced from 100% to the range of approximately 71.0% to 71.8% (assuming the Over-allotment Option is not exercised) and the gross proceeds and net proceeds from the Global Offering are estimated to be in the range of approximately HK\$1,000 million to HK\$1,460 million and approximately HK\$840 million to HK\$1,260 million, respectively. As a result, the Group's earnings contributed from TOM Online Group will be reduced. The audited loss attributable to Shareholders under HK GAAP for the year ended 31 December 2002 was approximately HK\$409.6 million, of which an unaudited loss of approximately HK\$49.9 million was contributed by TOM Online Group. The unaudited loss of the Group attributable to Shareholders for the nine months ended 30 September 2003 was approximately HK\$14.2 million, and the unaudited profit of the TOM Online Group attributable to Shareholders under HK GAAP for the year ended 31 December 2003 was approximately HK\$166.6 million.

The following pro forma analysis of the loss attributable to Shareholders and the loss per Share was prepared on the assumption that the Global Offering was completed on 1 January 2002 and does not take into account the following:

- (a) the net proceeds generated from the Global Offering; and
- (b) any profit from the deemed disposal by the Company of its interest in the TOM Online Group.

			Per Share	
	2002 HK\$ million	2003 HK\$ million	2002 HK cents (Note 1)	2003 HK cents (Note 1)
Audited loss attributable to Shareholders for the year ended 31 December 2002 and unaudited loss attributable to Shareholders for the nine months ended 30 September 2003 before the Proposed Spin-Off	409.6	14.2	12.41	0.41

**If TOM Online's net proceeds from Global Offering are approximately of HK\$840 million**

Adjusted by:

approximately 29.0% share of net loss of HK\$49.9 million for the year ended 31 December 2002 and net profit of HK\$166.6 million for the year ended 31 December 2003 attributable to shareholders of TOM Online (Note 2)

	(14.5)	48.3	(0.44)	1.38
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Unaudited pro forma combined loss attributable to Shareholders for the year ended 31 December 2002 and for the nine months ended 30 September 2003 after the Proposed Spin-off

	<u>395.1</u>	<u>62.5</u>	<u>11.97</u>	<u>1.79</u>
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**If TOM Online's net proceeds from Global Offering are approximately of HK\$1,260 million**

Adjusted by:

approximately 28.2% share of net loss of HK\$49.9 million for the year ended 31 December 2002 and net profit of HK\$166.6 million for the year ended 31 December 2003 attributable to shareholders of TOM Online (Note 2)

	(14.1)	47.0	(0.43)	1.34
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Unaudited pro forma combined loss attributable to Shareholders for the year ended 31 December 2002 and for the nine months ended 30 September 2003 after the Proposed Spin-off

	<u>395.5</u>	<u>61.2</u>	<u>11.98</u>	<u>1.75</u>
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*Notes:*

1. The calculation of the loss per Share for the year ended 31 December 2002 and the nine months ended 30 September 2003 on the respective audited loss attributable to Shareholders for the year ended 31 December 2002, unaudited loss attributable to Shareholders for the nine months ended 30 September 2003, unaudited pro forma combined loss attributable to Shareholders for the year ended 31 December 2002 and for the nine months ended 30 September 2003 after the Proposed Spin-Off are based on the weighted average number of 3,301,115,146 and 3,488,212,188 Shares outstanding during the relevant periods.
2. The unaudited pro forma combined results for the year ended 31 December 2002 and for the nine months ended 30 September 2003 include the results of the TOM Online Group for the years ended 31 December 2002 and 2003 prepared in accordance with US GAAP with certain adjustments under HK GAAP, as described in the Circular.

**In order to better reflect the underlying value of the TOM Online Shares, it is proposed that valuation of the TOM Online Shares should only be carried out at a time closer to the Listing Date. The indicative price range per ADS to be offered under the International Offering is expected to be made available by way of an announcement on the GEM website on or about Monday, 23 February 2004 (Hong Kong time).**

**The preliminary estimated valuation mentioned above is only based on a tentative price range, which will be subject to adjustments based on a valuation of the TOM Online Shares at a time closer to the Listing Date, taking into account the then conditions of the market and the TOM Online Group etc. There is no assurance that the final price range will fall within the valuation based on which the above figures are calculated.**

**In the event that the anticipated minimum net proceeds to be raised from the Global Offering falls below the lower end of the preliminary estimated net proceeds range of HK\$840 million as stated above, the Company will issue an announcement prior to the EGM confirming whether the Board and Rothschild, after assessing the effects of the Proposed Spin-Off under the final proceeds range, considers the final proceeds range of the Global Offering to be in the interests of the Company and its Shareholders and whether Rothschild's recommendation to be contained in the Circular remains unchanged. Otherwise, a new EGM will be convened and a new Shareholder circular will be issued.**

### **Effect on the working capital of the Group**

As disclosed in the paragraph headed "Intended use of proceeds" in this announcement, the net proceeds to be raised from the Global Offering are estimated to be in the range of HK\$840 million to HK\$1,260 million. In view of the fact that fresh capital will be raised from the Global Offering and TOM Online will remain a subsidiary of the Company after the Global Offering, the Directors are of the view that the working capital position of the Group would be improved as a result of the Global Offering.

### **THE REORGANISATION**

Prior to the Reorganisation, the Company's online media division consisted of twenty-five entities (for further information see the paragraph "Reorganisation Overview" under the section headed "The Proposed Spin-Off"). The Reorganisation involved the transfer to TOM Online by the Company of its interests in its nine core Internet business entities, the details of which are set out in the table below. Unless otherwise indicated, each entity was established by or on behalf of the Company.



<b>Company</b>	<b>Date of incorporation/ establishment and acquisition (if relevant)</b>	<b>Business description</b>
(1) Beijing Super Channel Network Limited	Established with limited liability under the laws of the PRC on 20 January 2000	Development of software information system, computer network and website products in the PRC
(2) Shanghai Super Channel Network Limited	Established with limited liability under the laws of the PRC on 20 January 2000	Development of software information system, computer network and website products in the PRC
(3) Shenzhen Freenet Information Technology Company Limited (“Shenzhen Freenet”)	Established with limited liability under the laws of the PRC on 16 November 1999. The economic interests in Shenzhen Freenet were acquired by the Company on 1 November 2000 and contractual arrangements to confer the economic interest on the Group were first entered into on 6 December 1999	Operates 163.net and e-mails service provider in the PRC
(4) Beijing Lei Ting Wan Jun Network Technology Limited (“Beijing Lei Ting”)	Established with limited liability under the laws of the PRC on 23 November 2000. Contractual arrangements to confer the economic benefit of Beijing Lei Ting on the Group were first entered into on 8 August 2002	Provision of Internet content services, online advertising services and wireless value-added services in the PRC
(5) Beijing GreaTom United Technology Company Limited (“GreaTom”)	Established with limited liability under the laws of the PRC on 12 March 2001. The TOM Online Group acquired an additional 20% interest on 31 October 2003, bringing its total interest in this company to 90%. The remaining 10% is held by Great Wall Technology Company Ltd., a PRC company whose shares are listed of the main board of the Stock Exchange	Provision of commercial enterprise solutions and development of operating platform for broadband Internet value-added services in the PRC

<b>Company</b>	<b>Date of incorporation/ establishment and acquisition (if relevant)</b>	<b>Business description</b>
(6) TOM.COM (China) Investment Limited	Established with limited liability under the laws of the PRC on 28 July 2000	Investment holding in the PRC
(7) Lahiji Vale Limited	Incorporated with limited liability under the laws of the British Virgin Islands on 30 September 1999	Investment holding in the PRC
(8) Advanced Internet Services Limited	Incorporated with limited liability under the laws of Hong Kong on 3 September 1999 and acquired by the Company on 1 November 2000	Investment holding in the PRC
(9) Laurstinus Limited	Incorporated with limited liability under the laws of the British Virgin Islands on 23 November 1999	Investment holding in the PRC

The six non-core Internet business entities of the Company’s online media division were not transferred to TOM Online primarily due to the fact that most of their operations were moved to the nine core Internet business entities, and they are expected to be wound down or, in the case of Beijing Lu Jing Ling Advertising Limited (now renamed Beijing TOM International Advertising Limited) (“Beijing Lu Jing Ling”) and Shenzhen Freenet Super Channel Advertising Company Limited (“Shenzhen Freenet Advertising”), used by the Company for offline advertising sales in the PRC to utilize their advertising licenses. In addition, as these six entities were managed by the management group of the nine core Internet business entities prior to the Reorganisation, they are included in the historical consolidated financial statements of the TOM Online Group up until 26 September 2003 (being the date of the agreements effecting the Reorganisation) under US GAAP. Details on these six non-core Internet business entities and the reasons for their exclusion from the TOM Online Group, are set out in the table below.

<b>Company</b>	<b>Date of establishment and acquisition (if relevant)</b>	<b>Description</b>	<b>Reason(s) for exclusion from TOM Online Group</b>
(1) Sharkwave Information Technology Company (Beijing) Limited	Established with limited liability under the laws of the PRC on 24 December 1999 and acquired by the Company on 1 December 2000	Engaged in sports website operations. Provision of services relating to Internet, electronic publishing and e-commerce technology in the PRC	Operations were integrated into Beijing Super Channel by the end of 2000. The Company intends to wind up this company in due course
(2) China Travel Network Company Limited	Established with limited liability under the laws of the PRC on 20 October 1997 and acquired by the Company on 1 December 2001	Operates a domestic travel website in the PRC	Operations were integrated into Beijing Super Channel by the end of 2001. The Company intends to wind up this company in due course
(3) Beijing Oriental China Travel Agency Limited	Established with limited liability under the laws of the PRC on 10 September 1997 and acquired by the Company on 1 December 2001	Provision of marketing, advertising and business conferencing services and travel related services	Operations were integrated into Beijing Super Channel by the end of 2001. The Company intends to wind up this company in due course
(4) Beijing Planet Network Travel Information Technology Limited	Established with limited liability under the laws of the PRC on 15 December 1999 and remaining 45% interest acquired by the Company on 1 December 2001	Travel related software development and provision of consulting services in the PRC	Operations were integrated into Beijing Super Channel by the end of 2001. The Company intends to wind up this company in due course

Company	Date of establishment and acquisition (if relevant)	Description	Reason(s) for exclusion from TOM Online Group
(5) Beijing Lu Jing Ling	Established with limited liability under the laws of the PRC on 5 March 2001	Advertising sales in the PRC. Holds an advertising licence in Beijing, the PRC. Used to be involved in the provision of online advertising (bundled with offline advertising elements)	It is no longer involved in online advertising and was fully transferred to the outdoor media division of the Remaining TOM Group on 26 September 2003 where it now conducts offline advertising sales in the PRC
(6) Shenzhen Freenet Advertising	Established with limited liability under the laws of the PRC on 14 May 2001	Advertising sales in the PRC. Holds an advertising licence in Guangzhou, the PRC. Used to be involved in the provision of online advertising (bundled with offline advertising elements)	It is no longer involved in online advertising and is in the process of being transferred to either the publishing division or the sports and entertainment division of the Remaining TOM Group where it now conducts offline advertising sales in the PRC

Both the core Internet business entities and non-core Internet business entities discussed above have been operating under the same management team led by Mr. Wang Lei Lei since inception or acquisition, as the case may be.

The remaining ten business entities in the Company's online media division, being the Excluded Businesses, were not transferred to the TOM Online Group pursuant to the Reorganisation as they were either engaged in different business areas (being non portal businesses within the PRC, online businesses outside the PRC or passive investments of the Company) and/or under different management from that of the TOM Online Group. The details of the Excluded Businesses, and the reasons for their exclusion from the TOM Online Group, are set out in the table below:

<b>Company/Business entity</b>	<b>Description</b>	<b>Reason(s) for exclusion from TOM Online Group</b>
(1) iTravel (HK) Limited ("iTravel")	iTravel provided worldwide travel services through the website "GoChinaGo" in Hong Kong	iTravel ceased operations in May 2002
(2) Shanghai Maya Online Broadband Network Company Limited ("Shanghai Maya")	Shanghai Maya's business includes renting and selling audio/video entertainment products (such as CDs, VCDs, and DVDs) online; producing and sublicensing television programmes; broadcasting television programmes on its website and video on demand services on the Shanghai broadband telecommunications network; and news and online advertising  Shanghai Maya also earns revenue from subleasing television channel commercial airtime to its advertisers and online advertising. Shanghai Maya receives commercial airtime in lieu of royalty income from television channels for broadcasting programmes produced by Shanghai Maya	Passive investment. The Company has an effective interest of 50% and three board seats out of a total of five  Shanghai Maya has been classified as an investment security in the Company's financial statements since October 2002 as the Company, notwithstanding its board representation, is unable to exert any meaningful influence on the decision-making process of Shanghai Maya
(3) Cernet Online Company Limited ("Cernet Online")	Cernet Online is an Internet service provider ("ISP") in the PRC and earns revenue mainly from providing Internet dial-up connectivity services with its own application platform	Passive investment. The Company has an effective interest of 37%. TOM Online is not involved in the ISP business (which is the pure physical infrastructure relating to Internet connectivity and does not involve the provision of content, products and services through the Internet and wireless communications networks)

Company/Business entity	Description	Reason(s) for exclusion from TOM Online Group
(4) Cernet Information Technology Company Limited (“Cernet Info”)	Cernet Info provides technical support services exclusively to Cernet Online	As discussed above, TOM Online is not involved in the ISP business
(5) ChinaPlus (Beijing) Company Limited (“ChinaPlus”)	ChinaPlus provides interactive online marketing services in the PRC and Taiwan. It is a think-tank which provides consulting services to corporates by determining marketing strategy and setting marketing budgets	The Company has an effective interest of 50%. The Company does not intend to expand this business. The operations of ChinaPlus are all online and the Company does not consolidate its revenue as it is not its subsidiary and therefore there is a minimal contribution to the Company
(6) AASTOCKS.com LIMITED (“AASTOCKS”)	AASTOCKS is engaged in the provision of subscription-based online financial information services primarily in Hong Kong, but also in the PRC. It also earns revenue from online advertising	Passive investment. The Company has an effective interest of 16.7% and only one board seat out of seven and, accordingly, the Company does not have influence over the decision-making process of AASTOCKS. The operations of AASTOCKS are all online and the Company does not consolidate its revenue as it is not its subsidiary and therefore there is a minimal contribution to the Company
(7) Beijing Redsail Netlegend Data Network Technology Company Limited (“Redsail”)	Redsail is principally engaged in call center services for mainland Chinese enterprises. No Internet services are provided	TOM Online is not involved in call center activities. The Company does not intend to expand or focus on this business going forward
(8) She Communications Limited (“SheComm”)	Operates a fashion website in Hong Kong. SheComm provides both online advertising services and offline event organisation and promotion and marketing services to customers and event sponsors	Passive investment. The Company has an effective interest of 33.3% and only two board seats out of a total of five  TOM Online is not involved in promotional events and activities

Company/Business entity	Description	Reason(s) for exclusion from TOM Online Group
(9) ECLink Electronic Network Systems (Shenzhen) Company Limited (“SZ ECLink”)	SZ ECLink develops electronic data interchange (EDI) customs declaration software and provides online customs declaration services to business customers	SZ ECLink is only focused on the non-portal related business of development of software applications for transmission of customs declaration data. By contrast, TOM Online’s commercial enterprise solutions employ Internet and wireless value-added technologies
(10) Hong Kong Portal	The Company’s Internet portal at <a href="http://www.hk.tom.com">www.hk.tom.com</a>	<p>The Company’s Hong Kong Portal has a different design and layout from TOM Online’s portal (<a href="http://www.tom.com">www.tom.com</a>) and offers different content and services</p> <p>The Hong Kong Portal is used primarily to provide information and to enhance other revenue generating businesses of the Remaining TOM Group</p>

The Reorganisation was consummated pursuant to a series of agreements all of which were duly executed on or by 26 September 2003. All other entities of the Company that were not transferred to TOM Online remained with the Company, including the ten Excluded Businesses of its online media division, and entities in the publishing, outdoor media, and sports and entertainment divisions.

In addition, on 19 November 2003, TOM Online acquired Puccini from Cranwood. Puccini provides wireless interactive voice response (“IVR”) services through LTWJi. Details of the companies incorporated and acquired pursuant to the Puccini acquisition are set out below:

<b>Company</b>	<b>Date of establishment and (if relevant) acquisition</b>	<b>Business description</b>
Bright Horizon Enterprises Limited	Incorporated with limited liability under the laws of the British Virgin Islands on 27 August 2001	Investment holding in the PRC
Puccini	Incorporated with limited liability under the laws of the Cayman Islands on 13 March 2000 and acquired by TOM Online on 19 November 2003	Investment holding in the PRC
LTWJi	Established with limited liability under the laws of the PRC on 31 July 2002 and economic interest acquired by TOM Online on 19 November 2003	Provision of IVR services in the PRC
Puccini Network Technology (Beijing) Limited	Established with limited liability under the laws of the PRC on 16 October 2003 and acquired by TOM Online on 19 November 2003	Technology development in network, computer software and hardware, IVR services and communications and the provision of related consultancy services in the PRC



## PROPOSED CONTINUING CONNECTED TRANSACTIONS

### 1. TOM Online Continuing Connected Transactions

Following the completion of the Proposed Spin-Off, the Remaining TOM Group and the TOM Online Group will continue to enter into or carry out certain transactions described below. Such transactions would constitute connected transactions for the Company under the GEM Listing Rules once the TOM Online Shares are listed on GEM and for so long as TOM Online (as a non-wholly owned subsidiary of the Company whose shareholders include a director, chief executive or substantial shareholder of the Company or an Associate of any such person) and its subsidiaries remain connected persons of the Company within the meaning of the GEM Listing Rules. In addition, such transactions will constitute connected transactions for TOM Online once the TOM Online Shares are listed on GEM and for so long as the Company (as the management and substantial shareholder of TOM Online) and its subsidiaries remain connected persons of TOM Online within the meaning of the GEM Listing Rules. Other than the connected transactions which are exempted from the reporting, announcement and shareholders' approval requirements set out in Chapter 20 of the GEM Listing Rules, such transactions (together, the "TOM Online Continuing Connected Transactions") are:

#### (i) *Media services agreement*

TOM Online and TOM.COM INTERNATIONAL entered into a media services agreement on 26 September 2003. Pursuant to this agreement, TOM.COM INTERNATIONAL agreed to provide, and/or use reasonable endeavors to procure the provision of certain goods and services to the TOM Online Group on a non-exclusive basis, including print and publishing services, advertising services, public relations and sports event management and other organization services, content, advertising services or other marketing or promotional services in relation to the television channel operated by CETV ("Media Services"). The fees for such services will be calculated with reference to the market rate for the provision of the relevant goods and services. This agreement will be effective until 31 December 2006.

The annual fee caps for media services under this agreement are HK\$3 million for 2004, HK\$4 million for 2005 and HK\$5 million for 2006. These fee caps are determined based on the Group's internal projection of contracts expected to be signed with the TOM Online Group. These projections include, inter alia, (i) contracts with the Company's outdoor media and publishing (print media) divisions for promotion of the TOM Online Group's services and products (which is expected to amount to HK\$1 million in 2004, HK\$2 million in 2005 and HK\$2.5 million in 2006, based on the TOM Online Group's use of the Company's outdoor media services to promote its free email system in 2003 (which contract amounted to approximately HK\$650,000) and the TOM Online Group's plans to use the Company's print media services to promote the TOM Online Group's new products, including but not limited to the portal product, wireless product, search product and game product), (ii) a tie-in for TOM Online's wireless products with a programme on the television channel operated by CETV (which is expected to amount to HK\$1 million per annum), (iii) the acquisition of content from the Company's publishing division (which is expected to amount to HK\$500,000 per annum) and (iv) other Media Services contracts (e.g. core marketing) with the Company (which is expected to amount to HK\$500,000 per annum).

Prior to 26 September 2003, the Remaining TOM Group was providing the TOM Online Group with Media Services under no specific agreement. The TOM Online Group has been acquiring these services from the Remaining TOM Group since inception. The Directors have confirmed that the Media Services provided up to 31 December 2003 by the Remaining TOM Group were on normal commercial terms or on terms no less favourable to the TOM Online Group than those available from independent third parties.

The purpose of this agreement is to enable TOM Online to procure offline Media Services (e.g. print, publishing and offline advertising) on a non-exclusive basis from the Company. Such services will be provided on an arm's length basis on normal commercial terms. TOM Online is not restricted from obtaining such services from third parties. The directors of TOM Online have confirmed that the TOM Online Group has been satisfied with the performance of the Remaining TOM Group, and has developed a mutual understanding with these companies which facilitates the efficient operation and support of the TOM Online Group's business. The introduction of a new provider may impact the operations of the TOM Online Group owing to the need to install new systems and the need to develop a new working relationship. Hence, the directors of TOM Online believe that it is reasonable to continue acquiring these services from the Remaining TOM Group.

(ii) *Online media services agreement*

TOM Online and TOM.COM INTERNATIONAL entered into an online media services agreement on 26 September 2003. Pursuant to this agreement, TOM Online agreed to provide and/or procure the provision of certain goods and services to the Remaining TOM Group on a non-exclusive basis, including content, mobile communication, infotainment services or related telecommunication services, website development maintenance and hosting services, online advertising services and other related online services ("Online Media Services"). The fees for such services will be calculated with reference to the market rate for the provision of the relevant goods and services. This agreement will be effective until 31 December 2006.

The annual fee caps for the online media services under this agreement are HK\$1 million for 2004, HK\$1.5 million for 2005 and HK\$2 million for 2006. These fee caps are determined based on the Group's internal projections of contracts expected to be signed with the Remaining TOM Group. These projections include, inter alia, (i) contracts with the Company for the provision of customer management, development and enhancement services (which is expected to amount to HK\$300,000 in 2005 and HK\$550,000 in 2006) and hosting and maintenance services (which is expected to amount to HK\$900,000 in 2004, HK\$1.05 million in 2005 and HK\$1.2 million in 2006) by the TOM Online Group, based on the fee for its provision of such services to the Company for the six months ended 31 December 2003 (which amounted to approximately HK\$540,000) and (ii) contracts with the Company for the provision of website development and maintenance and other Online Media Services by the TOM Online Group (which is expected to amount to HK\$100,000 in 2004, HK\$150,000 in 2005 and HK\$250,000 in 2006).

Prior to 26 September 2003, the TOM Online Group has been providing the Remaining TOM Group with Online Media Services under no specific agreement. The Remaining TOM Group has been acquiring these services from the TOM Online Group since inception. The Directors have confirmed that the Online Media Services provided up to 31 December 2003 by the TOM Online Group were on normal commercial terms or on terms no less favourable to the Remaining TOM Group than those available from independent third parties.

The purpose of this agreement is to enable the Company to procure Online Media Services (e.g. online advertising and website development) on a non-exclusive basis from TOM Online. Such services will be provided on an arm's length basis on normal commercial terms. The Company is not restricted from obtaining such services from third parties. The Directors have confirmed that the Remaining TOM Group has been satisfied with the performance of the TOM Online Group, and has developed a mutual understanding with these companies over the years which facilitates the efficient operation and support of the business of the Remaining TOM Group. The introduction of a new provider may impact the operations of the Remaining TOM Group owing to the need to install new systems and the need to develop a new working relationship. Hence, the Directors believe that it is reasonable to continuing providing these services to the Remaining TOM Group.

*(iii) Financial assistance to the TOM Online Group*

To date the TOM Online Group has primarily financed its operations through capital contribution and advances from the Company. Each of Laurstinus Limited ("Laurstinus"), Lahiji Vale Limited and Advanced Internet Services Limited ("Advanced Internet Services") entered into a separate loan agreement with the Company on 21 September 2003, pursuant to which the Company provided each of Laurstinus, Lahiji and Advanced Internet Services with a loan, for financing the general operations of each, in the amount of approximately HK\$12,800,000, HK\$67,600,000 and HK\$75,900,000 respectively. These three loans (the "Loans") are interest bearing at the market rate of 1.65% per annum over the Hong Kong Dollar Interbank Offered Rates with effect from 1 January 2004, are repayable after 31 December 2004 and do not have any fixed repayment terms. No security has been granted over the assets of the TOM Online Group in respect of any of these loans.

Pursuant to a letter of undertaking dated 13 February 2004, the Company has undertaken to the TOM Online Group that (i) the Company will not demand repayment of the amount due to it under these loans within one year from the Listing Date; (ii) the Company will not demand repayment of any outstanding amount due to it under these loans after one year from the Listing Date unless the TOM Online Group has positive cash flow from operations and net profit in a financial year and each of the TOM Online Group's independent non-executive directors has given an opinion that such repayment will not adversely affect the operations of the TOM Online Group and the implementation of TOM Online Group's business objectives for the period until 31 December 2006; and (iii) provided that the TOM Online Group has positive cash flow from operations and net profit in a financial year and each of the TOM Online Group's independent non-executive directors has given an opinion that such repayment will not adversely affect the

operations of the TOM Online Group and the implementation of the TOM Online Group's business objectives for the period until 31 December 2006, the TOM Online Group may at any time voluntarily prepay the loans without penalty.

In addition, the Company has confirmed that in the event the TOM Online Group cannot attain its projected level of cash flow to finance the TOM Online Group's business plans until 31 December 2006 or fail to obtain the necessary funding in the equity or debt markets or bank financing, the Company is willing to negotiate with TOM Online to revise the repayment terms of the amounts due to it and will revise the repayment terms as appropriate.

In the opinion of the Directors, the interest rates for the above loans are on normal commercial terms as compared to similar terms offered by banks.

## 2. Tenancy Agreements

Certain members of the Group have entered into certain conditional supplemental tenancy agreements dated 13 February 2004 with Beijing Oriental for the lease of certain premises in Beijing Oriental Plaza. These supplemental tenancy agreements will not constitute continuing connected transactions for TOM Online following the completion of the Proposed Spin-Off, as Beijing Oriental is not a connected person of TOM Online. However, these transactions are and, following the completion of the Proposed Spin-Off, will remain continuing connected transactions for the Company as Beijing Oriental is a connected person of the Company by virtue of it being an Associate of Cheung Kong.

The conditional supplemental tenancy agreements relate to the leasing of office spaces in Beijing Oriental Plaza for the TOM Online Group's use in Beijing. The TOM Online Group currently occupies 8/F., Rooms 1-6, 9/F. and Rooms 7-8, 9/F., Tower W3, The Towers, Beijing Oriental Plaza under three tenancy agreements dated 2 July 2003 which will expire on 14 June 2006. Three conditional supplemental tenancy agreements have been entered into each in respect of each tenancy agreement. Each of these agreements is conditional upon Independent Shareholders' approval. Details of the three tenancy agreements as amended by their respective conditional supplemental agreements are set out below.

### (i) *First tenancy agreement*

Landlord:	Beijing Oriental
Tenant:	Beijing Super Channel
Subject premises:	The whole floor of 8/F., Tower W3, The Towers, Beijing Oriental Plaza, No. 1-31, Dong Chang An Jie, Dong Cheng District, Beijing, the PRC ("Property 1")
Gross floor area:	Approximately 3,074 sq.m.
Term:	36 months commencing 15 June 2003 to 14 June 2006
Rent and management fee:	US\$53,795 per month and monthly management fee of US\$10,759, exclusive of rates and other outgoing charges (which rates and charges are payable to third parties).

The rental is payable in advance on a monthly basis.

The annual caps for this tenancy agreement for 2004, 2005, and 2006 are US\$613,263 (approximately HK\$4,783,451), US\$613,263 (approximately HK\$4,783,451) and US\$355,047 (approximately HK\$2,769,367) respectively. These annual caps are based on the actual amount of rent and management fee payable to Beijing Oriental under the first tenancy agreement.

*(ii) Second tenancy agreement*

Landlord:	Beijing Oriental
Tenant:	TOM.COM (China)
Subject premises:	Rooms 1-6, 9/F., Tower W3, The Towers, Beijing Oriental Plaza, No. 1-31, Dong Chang An Jie, Dong Cheng District, Beijing, the PRC (“Property 2”)
Gross floor area:	Approximately 1,658 sq.m.
Term:	36 months commencing 15 June 2003 to 14 June 2006
Rent and management fee:	US\$29,015 per month and monthly management fee of US\$5,803, exclusive of rates and other outgoing charges (which rates and charges are payable to third parties).

The rental is payable in advance on a monthly basis.

The annual caps for this tenancy agreement for 2004, 2005, and 2006 are US\$330,771 (approximately HK\$2,580,014), US\$330,771 (approximately HK\$2,580,014) and US\$191,499 (approximately HK\$1,493,692) respectively. These annual caps are based on the actual amount of rent and management fee payable to Beijing Oriental under the second tenancy agreement.

*(iii) Third tenancy agreement*

Landlord:	Beijing Oriental
Tenant:	TOM.COM (China)
Subject premises:	Rooms 7-8, 9/F., Tower W3, The Towers, Beijing Oriental Plaza, No. 1-31, Dong Chang An Jie, Dong Cheng District, Beijing, the PRC (“Property 3”)
Gross floor area:	Approximately 654 sq.m.
Term:	36 months commencing 15 June 2003 to 14 June 2006
Rent and management fee:	US\$11,445 per month and monthly management fee of US\$2,289, exclusive of rates and other outgoing charges (which rates and charges are payable to third parties) .

The rental is payable in advance on a monthly basis.

The annual caps for this tenancy agreement for 2004, 2005, and 2006 are US\$130,473 (approximately HK\$1,017,689), US\$130,473 (approximately HK\$1,017,689) and US\$75,537 (approximately HK\$589,189) respectively. These annual caps are based on the actual amount of rent and management fee payable to Beijing Oriental under the third tenancy agreement.

The tenancy agreements relating to the leasing of office space in Beijing Oriental Plaza were disclosed in the circular of the Company dated 18 July 2003 and were subsequently approved by the Shareholders in general meeting on 5 August 2003. For information purposes, the rent for Properties 1, 2 and 3 under such tenancy agreements was US\$61,480, US\$33,160 and US\$13,080 per month respectively. As a result of the decrease in the rental price of the property market in Beijing, the TOM Online Group has renegotiated the terms of its existing leases, with a lower rent (which is consistent with the local market price), and has conditionally entered into the supplemental tenancy agreements in respect of such premises. Pursuant to the three conditional supplemental tenancy agreements, the effective rent under the first, second and third tenancy agreements as amended by the three conditional supplemental tenancy agreements will be reduced from approximately US\$14.2 per square metre per month to approximately US\$13.1 per square metre per month (having taken into account the rent-free period), representing a reduction of approximately 7.7%, and approximately US\$17.5 per square metre per month (without the rent-free deduction). The Directors have confirmed that such changes in the rental rate would have an impact of reducing TOM Online Group's rental expense by approximately US\$202,000 for the term of the tenancy agreements.

In addition, the TOM Online Group also entered into a new tenancy agreement dated 13 February 2004 for the lease of Rooms 7-8, 5/F., Tower W3, The Towers, Beijing Oriental Plaza resulting from the expansion of its business. Details of the new tenancy agreement are set out below.

(iv) *Fourth tenancy agreement*

Landlord:	Beijing Oriental
Tenant:	LTWJi
Subject premises:	Rooms 7-8, 5/F., Tower W3, The Towers, Beijing Oriental Plaza, No. 1-31, Dong Chang An Jie, Dong Cheng District, Beijing, PRC
Gross floor area:	Approximately 656 sq. m.
Term:	31 months and 14 days commencing 1 January 2004 to 14 August 2006
Rent and management fee:	US\$11,480 per month and a monthly management fee of US\$2,296, exclusive of rates and other outgoing charges (which rates and charges are payable to third parties).

The rental is payable in advance on a monthly basis.

The annual caps for this tenancy agreement for 2004, 2005, and 2006 are US\$130,872 (approximately HK\$1,020,802), US\$130,872 (approximately HK\$1,020,802) and US\$103,320 (approximately HK\$805,896) respectively. These annual caps are based on the actual amount of rent and management fee payable to Beijing Oriental under the fourth tenancy agreement.

The Directors have confirmed that the effective rent under the fourth tenancy agreement is approximately US\$14.1 per square metre per month (having taken into account the rent-free period) and approximately US\$17.5 per square metre per month (without the rent-free deduction), which are at market rates available to independent third parties and on normal commercial terms.

### **3. Application for waivers**

The Continuing Connected Transactions have been entered into and carried out in the ordinary course of business of the Group (except the Loans) and in accordance with the terms of the relevant agreements, which were negotiated on an arm's length basis. The Directors are of the view that the Continuing Connected Transactions were entered into on normal commercial terms (i.e. terms no less favourable to the Group than terms available to or from independent third parties) and the terms are fair and reasonable and in the interests of the Shareholders taken as a whole. The Continuing Connected Transactions are expected to continue in the future and are expected to constitute non-exempted continuing connected transactions under Rule 20.26 of the GEM Listing Rules and are subject to the reporting requirements set out in Rule 20.34, the announcement requirements set out in Rule 20.35 and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules.

However, as the Continuing Connected Transactions will be undertaken in the normal course of business of the Company and will occur on a regular basis, the Directors consider that it would not be practical to make ongoing disclosure of such transactions. The Company has therefore made an application to the Stock Exchange for a waiver from the announcement and shareholders' approval requirements as required under Rule 20.35 and Rule 20.36 of the GEM Listing Rules for the Continuing Connected Transactions subject to the following conditions:

#### *(a) Arm's Length Basis*

The Continuing Connected Transactions shall be:

- (i) entered into by the Company in the ordinary and usual course of business (except the Loans); and
- (ii) either:
  - (A) on normal commercial terms; or

- (B) where there is no available comparison to judge whether they are on normal commercial terms, on terms no less favourable than those available to or from independent third parties;
- (C) on terms that are fair and reasonable so far as the independent Shareholders are concerned; and
- (D) if applicable, with the annual aggregate value of each category of connected transactions not exceeding the relevant annual caps set out in paragraph (e) below.

(b) *Disclosure*

The Company shall disclose brief details of the Continuing Connected Transactions in each year in the annual report and accounts of the Company for that year, as required by Rule 20.34(1) to (5) of the GEM Listing Rules, namely:

- (i) the date or period of the transaction;
- (ii) the parties thereto and a description of their connected relationship;
- (iii) a brief description of the transaction and the purpose of the transaction;
- (iv) the total consideration and the terms; and
- (v) the nature and extent of the interest of the connected person in the transaction.

(c) *Independent non-executive Directors' review*

The independent non-executive Directors shall review annually the Continuing Connected Transactions and confirm, in the annual report and accounts of the Company for the year in question, that such transactions have been conducted in the manner stated in conditions (i) and (ii) in paragraph (a) above.

(d) *Auditors' review*

The auditors of the Company shall review the Continuing Connected Transactions annually and shall provide the Directors with a letter stating that the transactions:

- (i) have received the approval of the Directors;
- (ii) have been entered into in accordance with the pricing policies as stated in the relevant agreements, where applicable;
- (iii) have been entered into in accordance with the terms of the agreements governing the transactions; and
- (iv) if applicable, have not exceeded the caps specified in paragraph (e) below.



The letter of the auditors is to be addressed to the Directors and a copy of which is to be provided to the Stock Exchange at least 10 Business Days prior to the bulk print of TOM Online's annual report. In the event that, for whatever reason, the auditors decline to accept the engagement or are unable to provide that letter, the Directors shall contact the Stock Exchange immediately.

For the purpose of the above review by the auditors, each party to the Continuing Connected Transactions has undertaken to the Company that it will provide its auditors with access to its accounting records.

(e) *Caps*

The aggregate annual value of the Continuing Connected Transactions shall not exceed the limits set out below:

<b>Continuing Connected Transactions</b>	<b>Proposed annual caps</b>	
Media services agreement	For 2004	HK\$3 million
	For 2005	HK\$4 million
	For 2006	HK\$5 million
Online media services agreement	For 2004	HK\$1 million
	For 2005	HK\$1.5 million
	For 2006	HK\$2 million
First tenancy agreement	For 2004	US\$613,263
	For 2005	US\$613,263
	For 2006	US\$355,047
Second tenancy agreement	For 2004	US\$330,771
	For 2005	US\$330,771
	For 2006	US\$191,499
Third tenancy agreement	For 2004	US\$130,473
	For 2005	US\$130,473
	For 2006	US\$75,537
Fourth tenancy agreement	For 2004	US\$130,872
	For 2005	US\$130,872
	For 2006	US\$103,320

(f) *Undertakings*

The Company will undertake that if:

- (i) any of the material terms of the agreements referred to above are altered (unless as provided for under the terms of the relevant agreement or arrangement) or if the Remaining TOM Group enters into any new agreements or arrangements with any connected persons (within the meaning of the GEM Listing Rules and subject to the requirements set out in the GEM Listing

Rules) in the future or if the caps referred to above are exceeded, the Remaining TOM Group will comply with the provisions of Chapter 20 of the GEM Listing Rules dealing with connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange; and

- (ii) the aggregate consideration under each Continuing Connected Transaction in any year is to be greater than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Company, the transaction(s) and the aggregate consideration will be subject to review and re-approval by the Independent Shareholders at the annual general meeting following the initial approval and at each subsequent annual general meeting so long as the transaction(s) continue(s). The independent non-executive Directors will be required to opine in the annual report whether or not the Company should continue with the Continuing Connected Transaction(s).

The Continuing Connected Transactions are conditional on the approval by the Independent Shareholders at the EGM voting by way of poll. Cheung Kong and its Associates will abstain from voting on the resolution to be proposed at the EGM to approve the Tenancy Agreements.

## ASSURED ENTITLEMENTS

### 1. The Preferential Offer

In order to enable Shareholders to participate in the Global Offering on a preferential basis as to allocation only, in addition to any application for Offer Shares as part of the Hong Kong Public Offer generally, Qualifying Shareholders will be invited to apply for Reserved Shares in the Preferential Offer, on the basis of an assured entitlement of one Reserved Share for every whole multiple of 100 Shares held by them at the close of business on the Record Date.

**Shareholders should note that their entitlement to Reserved Shares may represent TOM Online Shares not in a multiple of a full board lot of 2,000 shares, and dealings in odd lot TOM Online Shares may be at below their prevailing market price.**

A blue application form will be despatched to each Qualifying Shareholder, together with a copy of the Prospectus. Qualifying Shareholders are permitted to apply for a number of Reserved Shares which is greater than, less than or equal to, their Assured Entitlements under the Preferential Offer. Where a Qualifying Shareholder applies for a number of Reserved Shares greater than his or her Assured Entitlement, his or her Assured Entitlement will be satisfied in full, subject as mentioned above, but the excess portion of such application will only be met to the extent that there are sufficient available Reserved Shares resulting from other Qualifying Shareholders declining to take up some or all of their Assured Entitlements. The Joint Global Coordinators, on behalf of the underwriters, will allocate any Assured Entitlements not taken up by Qualifying Shareholders first to satisfy the excess applications for Reserved Shares from Qualifying Shareholders on a fair and reasonable basis, and thereafter, at the discretion of the Joint Global Coordinators, to the International Offering.

**Assured Entitlements of Qualifying Shareholders will not be transferable and there will be no trading in nil paid entitlements on the Stock Exchange. The Joint Global Coordinators have the authority to reallocate all or any Reserved Shares not taken up by Qualifying Shareholders to the International Offering.**

The Assured Entitlements are not being extended to Overseas Shareholders.

The number of TOM Online Shares available under the Preferential Offer is expected to represent approximately 3.9% of the Global Offering and approximately 1.0% of the total enlarged issued share capital of TOM Online upon completion of the Global Offering (assuming that the Initial Consideration Shares are issued and that the Over-allotment Option is not exercised).

The procedure for application for Assured Entitlements will be set out in the Prospectus and in the blue application form.

## **2. Closure of register of members**

As announced by the Company on Monday, 9 February 2004, the register of members of the Company will be closed on Tuesday, 24 February 2004 for the purpose of determining the entitlement of Shareholders to the Assured Entitlements. No transfer of Shares may be registered on that day. In order to qualify for the Assured Entitlements, all transfers must be lodged with the Registrar by no later than 4:00 p.m. on Monday, 23 February 2004. However, if the Proposed Spin-Off is postponed, the Board may determine another date for closure of the register of members of the Company for the purpose of determination of Assured Entitlements further announcement would be made to inform Shareholders in due course.

## **PRE-IPO SHARE OPTION PLAN AND THE SHARE OPTION SCHEME**

The Pre-IPO Share Option Plan and the Share Option Scheme constitute share option schemes governed by Chapter 23 of the GEM Listing Rules and are subject to the approval of the Shareholders at the EGM.

The Pre-IPO Share Option Plan and the Share Option Scheme were adopted by TOM Online on 12 February 2004 and became effective subject to:

- (i) the approval of such schemes by the Shareholders in the EGM;
- (ii) the GEM Listing Committee granting approval of the listing of, and permission to deal in, any TOM Online Shares which may be issued pursuant to the exercise of Options;
- (iii) the obligations of the underwriters under the underwriting agreement to be entered into in respect of the Global Offering becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the underwriters) and not being terminated in accordance with the terms of such agreement or otherwise; and
- (iv) the commencement of dealings in the TOM Online Shares on GEM.

It is expected that the Pre-IPO Share Option Plan and the Share Option Scheme will become wholly unconditional on the Listing Date.

TOM Online proposes, subject to satisfaction of the conditions referred to above, to grant Options under the Pre-IPO Share Option Plan to subscribe for a total of 280,000,000 TOM Online Shares (representing 10 per cent. of the current issued share capital of TOM Online) to certain executive directors, senior management and general staff (including the grant of Options in respect of 165,000,000 TOM Online Shares (representing approximately 5.89% of TOM Online's current issued share capital) to Mr. Wang Lei Lei as further described in the section headed "Proposed Grant of Options to Mr. Wang Lei Lei" below). Of these, Options in respect of 28,000,000 Shares (representing 1 per cent. of the current issued share capital of TOM Online) will vest one month prior the Listing Date, although these Options' will only be capable of exercise after the date which is six months after the Listing Date, and the remaining Options in respect of 252,000,000 TOM Online Shares (representing 9 per cent. of the current issued share capital of TOM Online) will vest between one and four years after the Listing Date. The TOM Online Board cannot grant any further Options under the Pre-IPO Share Option Plan.

As at the date of this announcement, no Options have been granted or agreed to be granted by TOM Online under the Share Option Scheme.

## PROPOSED GRANT OF OPTIONS TO MR. WANG LEI LEI

The TOM Online Board proposes, subject to the approval of Shareholders, that in order to recognise the contribution of Mr. Wang Lei Lei, the chief executive officer of the TOM Online Group, to the growth of the TOM Online Group and to incentivise him going forward, it will grant Options under the Pre-IPO Share Option Plan to Mr. Wang Lei Lei which will represent more than one per cent. of the total issued TOM Online Shares as follows:

<b>Name of grantee</b>	<b>Number of Options outstanding under the Pre-IPO Share Option Plan</b>	<b>Exercise period</b> <i>(Note 1)</i>	<b>Approximate percentage of current issued share capital of TOM Online</b>
Mr. Wang Lei Lei	16,500,000	Six months after Listing Date to 10 years after the Listing Date <i>(Note 2)</i>	0.59%
	24,750,000	One year after Listing Date to 10 years after the Listing Date	0.88%
	33,000,000	Two years after Listing Date to 10 years after the Listing Date	1.18%
	41,250,000	Three years after Listing Date to 10 years after the Listing Date	1.47%
	49,500,000	Four years after Listing Date to 10 years after the Listing Date	1.77%
	<hr/> <b>165,000,000</b> <hr/> <hr/>		<hr/> <b>5.89%</b> <hr/> <hr/>

### Notes:

1. All Options vest at the start of the relevant exercise period save for the Options which are exercisable from 6 months after the Listing Date which vest one month after the Listing Date.
2. These Options will vest one month after the Listing Date.

All Options granted pursuant to the Pre-IPO Share Option Plan are exercisable at the Offer Price.

The total number of TOM Online Shares to be issued upon exercise of the Options proposed to be granted to Mr. Wang Lei Lei represents 5.89% of the current total issued TOM Online Shares. Save for the proposed grant of Options described above, no other options in respect of TOM Online Shares are proposed to be granted or have been granted to Mr. Wang Lei Lei as at the date of this announcement.

As required by Rule 23.04 of the GEM Listing Rules, this grant of Options under the Pre-IPO Share Option Plan to Mr. Wang Lei Lei will be subject to the approval of the independent non-executive Directors.

As further required by the GEM Listing Rules, the maximum number of TOM Online Shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Share Option Schemes in any 12-month period up to the date of grant to each eligible participant may not exceed one per cent. of the total issued TOM Online Shares unless (i) a shareholders' circular is despatched to the Shareholders; (ii) the Shareholders approve the grant of the options in excess of the one per cent. limit referred to in this paragraph; and (iii) the relevant eligible participant and their Associates abstain from voting on such resolution. Accordingly, the proposed grant of Options to Mr. Wang Lei Lei described above is subject to the approval of Shareholders (other than Mr. Wang Lei Lei and his Associates who are required to abstain from voting on such resolution as required by the Note to Rule 23.03(4) of the GEM Listing Rules) at the EGM.

#### **REFRESHMENT OF THE 10 PER CENT. LIMIT UNDER THE PRE-IPO SHARE OPTION PLAN AND THE SHARE OPTION SCHEME**

In accordance with the GEM Listing Rules, inter alia, the total number of TOM Online Shares available for issue under the Pre-IPO Share Option Plan and the Share Option Scheme and any other scheme of TOM Online, must not in aggregate exceed 10 per cent. of the TOM Online Shares in issue at the date of approval of the Pre-IPO Share Option Plan and the Share Option Scheme (the "10 per cent. limit"). The 10 per cent. limit may however be refreshed in accordance with the terms of the relevant scheme.

As TOM Online intends to utilise the full 10 per cent. limit pursuant to the grant of Options under the Pre-IPO Share Option Plan described above, it would not be able to grant any Options to employees of the TOM Online Group under the Share Option Scheme unless the 10 per cent. limit were refreshed. The TOM Online Board wishes to retain the flexibility to make new grants of Options under the Share Option Scheme to employees going forward. Accordingly, the Board wishes to take this opportunity to recommend for the Shareholders' approval at the EGM that, subject to the approval of the Pre-IPO Share Option Plan and the Share Option Scheme, the existing 10 per cent. limit to grant Options under the Share Option Scheme and any other schemes of TOM Online which may be adopted in the future be immediately refreshed so that the total number of TOM Online Shares to be allotted and issued pursuant to the grant or exercise of any Options under the Share Option Scheme and any other schemes of TOM Online shall not exceed 10 per cent. of the TOM Online Shares in issue on the date of passing of the relevant resolution at the EGM.

Pursuant to the GEM Listing Rules, the TOM Online Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Pre-IPO Share Option Plan and the Share Option Scheme and any other schemes of TOM Online are not permitted to exceed 30 per cent. of the TOM Online Shares in issue from time to time. No Options may be granted under any scheme(s) of TOM Online which would result in the 30 per cent. limit being exceeded.

If the 10 per cent. limit is refreshed, based on 2,800,000,000 TOM Online Shares in issue as at the Latest Practicable Date and assuming that no further TOM Online Shares are issued prior to the date of the EGM, the Board will be able to grant Options under the Share Option Scheme for subscription of up to 280,000,000 TOM Online Shares, which do not include those Options that are outstanding, cancelled or lapsed as at the EGM. The refreshment of the 10 per cent. limit is conditional upon the approval by the Shareholders at the EGM. The Directors consider that the refreshment of the 10 per cent. limit is in the interests of TOM Online, the Company and the Shareholders as a whole as it enables TOM Online to grant Options to participants in its Share Option Scheme to reward and motivate them to strive for the future developments and expansion of the Group.

The Directors consider that it is not appropriate to state the value of all Options that can be granted pursuant to the Share Option Scheme as if they had been granted on the Latest Practicable Date as a number of variables which are crucial for the calculation of the Option value have not been determined. Such variables include but are not limited to the exercise price, exercise period, lock-up period (if any), and predetermined performance targets (if any). The Directors believe that any calculation of the value of the Options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to Shareholders.

The TOM Online Board does not have any immediate intention to grant Options under the Share Option Scheme following the refreshment of the 10 per cent. limit.

Any refreshment of the 10 per cent. limit will not permit any further Options to be granted pursuant to the Pre-IPO Share Option Plan as the TOM Online Board cannot grant any further Options under the Pre-IPO Share Option Plan.

## **DESPATCH OF CIRCULAR**

The Circular containing, amongst other things, further information on (a) the background to, reasons for, and effects of, the Proposed Spin-Off; (b) the Continuing Connected Transactions; (c) the Preferential Offer; (d) the Pre-IPO Share Option Plan and the Share Option Scheme; (e) the grant of Options under the Pre-IPO Share Option Plan representing more than one per cent. of the total issued TOM Online Shares to Mr. Wang Lei Lei; and (f) the refreshment of the 10 per cent. limit of the total number of TOM Online Shares to be issued under the Share Option Scheme and any other schemes of TOM Online; and a notice of the EGM will be despatched to Shareholders on 14 February 2004.

**The Circular is important and requires the immediate attention of the Shareholders.**

In addition to the printed version of the Circular, an electronic version of the Circular will also remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for seven days from the date of its posting.

## EXTRAORDINARY GENERAL MEETING

The EGM will be convened at 9:00 a.m. on Monday, 1 March 2004 to seek approval of the Shareholders on the Proposed Spin-Off, the Continuing Connected Transactions, the Pre-IPO Share Option Plan and the Share Option Scheme, the grant of Options under the Pre-IPO Share Option Plan representing more than one per cent. of the issued TOM Online Shares for Mr. Wang Lei Lei and the refreshment of the 10 per cent. limit of the total number of TOM Online Shares to be issued under the Share Option Scheme and any other schemes of TOM Online. Shareholders should read to the Circular and the form of proxy for the EGM for further information.

## EXPECTED TIMETABLE

2004

Extraordinary general meeting in respect of the proposed change of name of the Company <sup>(1)</sup> .....	9:30 a.m. on Monday, 23 February
Latest time for lodging transfers of Shares to qualify for the Preferential Offer .....	4:00 p.m. on Monday, 23 February
Indicative price range for ADSs under the International Offering expected to be published on the GEM website .....	on or about Monday, 23 February
Record Date for determining the entitlements to the Preferential Offer .....	Tuesday, 24 February
Register of members of the Company closes on .....	Tuesday, 24 February
Register of members of the Company re-opens on .....	Wednesday, 25 February
Latest time for return of forms of proxy in respect of the EGM .....	9:00 a.m. on Saturday, 28 February
EGM .....	9:00 a.m. on Monday, 1 March

*All times refer to Hong Kong local time.*

*Please note that the above timetable is subject to change depending on the prevailing market conditions. If there are changes to the above timetable, the Company will publish an announcement on the GEM website at [www.hkgem.com](http://www.hkgem.com).*

*Note:*

- This extraordinary general meeting of the Shareholders was convened to be held at the Grand Ballroom I, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong at 9:30 a.m. on Monday, 23 February 2004 (or such adjournment thereof) by a notice which was set out in the Company's circular to Shareholders dated 30 January 2004.*



## GENERAL

Citigroup and Morgan Stanley have been appointed as Joint Sponsors and Joint Global Coordinators in respect of the Proposed Spin-Off and the Global Offering.

Rothschild has been appointed as the independent financial adviser to advise the Shareholders on the Proposed Spin-Off. The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the terms of the Continuing Connected Transactions. In this regard, Rothschild has also been appointed by the Company as the independent financial adviser to advise the Independent Board Committee.

The Board expects that the Prospectus containing, among other things, further details of the business and financial information on TOM Online and on the Assured Entitlements will be issued in due course and will be available to, among others, the Shareholders.

The Prospectus will be issued by TOM Online, which has its principal executive offices located at 8th Floor, Tower W3, Oriental Plaza, No. 1 Dong Chang An Avenue, Beijing, China 100738.

In connection with the Global Offering, the price of the Offer Shares may be stabilised in accordance with the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong). Details of any intended stabilisation and how it will be regulated under the SFO will be contained in the Prospectus.

**A further announcement will be made to update Shareholders and investors of any significant development related to the Proposed Spin-Off and the Global Offering.**

**Shareholders should note that the Company may or may not proceed with the Proposed Spin-Off in accordance with the terms set out above, or at all. A further announcement will be made as and when appropriate in respect of any material developments of the separate listings of TOM Online on GEM and/or on NASDAQ and/or any material change in the information contained in this announcement. The Board emphasises that the specific terms and timing of the Proposed Spin-Off may require certain consents and approvals, including approval from the GEM Listing Committee, relevant regulatory authorities in the US and the Shareholders, and subject to any further conditions that may be imposed by the GEM Listing Committee and relevant regulatory authorities in the US. Such consents and approvals may or may not be obtained. Shareholders and potential investors are therefore reminded to exercise caution when dealing in the Shares.**

## DEFINITIONS

“ADSs”	American depository shares to be issued by a depository representing ownership of a certain number of TOM Online Shares, which are to be quoted on NASDAQ
“Associate(s)”	the meaning ascribed to it in the GEM Listing Rules
“Assured Entitlements”	the entitlements of Qualifying Shareholders to apply for Reserved Shares under the Preferential Offer on the basis of an assured entitlement of one Reserved for every whole multiple of 100 Shares held by each Qualifying Shareholder at the close of business on the Record Date

“Beijing Oriental”	Beijing Oriental Plaza Company Limited, an Associate of Cheung Kong
“Beijing Super Channel”	Beijing Super Channel Network Limited (北京訊能網絡有限公司), a company established under the laws of the PRC and both a wholly-owned subsidiary of the Company and a member of the TOM Online Group
“Board”	the board of Directors
“Business Day”	any day (excluding Saturday) on which banks in Hong Kong generally are open for business and the Stock Exchange is open for the business of dealing in securities
“CCASS”	the Central Clearing and Settlement System, established and operated by Hong Kong Clearing
“CETV”	China Entertainment Television Broadcast Limited
“Cheung Kong”	Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong, whose securities are listed on the Main Board of the Stock Exchange. Cheung Kong is a substantial shareholder (as such expression is defined under the GEM Listing Rules) of the Company and is interested in approximately 36.85% of the issued share capital of the Company (including the shareholding interest in the Company through Hutchison) as at the Latest Practicable Date
“China Mobile”	China Mobile Communications Corporation, a stated-owned enterprise established under the laws of the PRC
“China Unicom”	China United Telecommunications Corporation, a state-owned enterprise established under the laws of the PRC
“Circular”	the circular to be despatched to Shareholders in relation to the Proposed Spin-Off
“Citigroup”	Citigroup Global Markets Asia Limited, which is licensed for Type 1 regulated activity (dealing with securities) and Type 6 regulated activity (advising on corporate finance) under the SFO
“Company”	TOM.COM LIMITED (proposed to be renamed TOM Group Limited), a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on GEM and which is the controlling shareholder of TOM Online
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

“Continuing Connected Transactions”	the Tenancy Agreements and the TOM Online Continuing Connected Transactions
“Convertible Bonds”	the US\$150,000,000 of guaranteed convertible bonds due 2008 issued by TOM Holdings Limited (a subsidiary of the Company) on 28 November, as described in the Company’s circular dated 9 December 2003
“Cranwood”	Cranwood Company Limited, a company incorporated in the Republic of Liberia and a company wholly-owned by Ms. Chau Hoi Shuen, which is a substantial shareholder of the Company and is interested in approximately 24.57% of the issued share capital of the Company as at the Latest Practicable Date
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and to be held at the Grand Ballroom I, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Monday, 1 March 2004 at 9:00 a.m. (or such adjournment thereof), notice of which will be set out in the Circular
“Excluded Businesses”	the ten business entities of the Company’s online media division which are engaged in either non-portal business within the PRC or online businesses outside the PRC, or are passive investments of the Group, and which are excluded from the TOM Online Group, as described under the paragraph “The Reorganisation” in this announcement
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Global Offering”	the Hong Kong Public Offer and the International Offering
“Group” or TOM Group”	the Company and its subsidiaries (inclusive of the TOM Online Group)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Clearing”	Hong Kong Securities Clearing Company Limited

“Hong Kong Portal”	the Company’s internet portal operations at <a href="http://www.hk.tom.com">www.hk.tom.com</a>
“Hong Kong Public Offer”	the proposed public offer in Hong Kong of new TOM Online Shares in connection with the Proposed Spin-Off, on and subject to the terms and conditions as described in this announcement and the Circular and to be further described in the Prospectus
“Hutchison”	Hutchison Whampoa Limited, a company incorporated in Hong Kong, whose securities are listed on the Main Board of the Stock Exchange. Hutchison is approximately 49.9% (indirectly) owned by Cheung Kong. Hutchison is a substantial shareholder (as such expression is defined under the GEM Listing Rules) of the Company and is interested in approximately 24.57% of the issued share capital of the Company as at the Latest Practicable Date
“Independent Board Committee”	the independent committee of the Board comprised of Mrs. Angelina Lee, Mr. Henry Cheong and Ms. Anna Wu, being all of the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Continuing Connected Transactions
“Independent Shareholders”	in relation to any Continuing Connected Transaction means the shareholders of the Company (other than the relevant connected person and its Associates and who are interested in such relevant Continuing Connected Transaction and who will be required to abstain from voting on the relevant resolution at the EGM to approve such Continuing Connected Transaction)
“Initial Consideration Shares”	such number of TOM Online Shares representing a sum of US\$18,500,000 at the Offer Price to be issued and allotted to Cranwood credited as fully paid prior to the Listing Date in order to satisfy the initial consideration for the acquisition of Puccini (subject to adjustments)
“International Offering”	the proposed placing and offering of ADSs (which may, at the option of investors, be delivered in the form of TOM Online Shares) outside of the Hong Kong Public Offer to professional institutional and other investors in connection with the Proposed Spin-Off, on and subject to the terms and conditions as described in this announcement and the Circular and to be further described in the Prospectus
“Joint Global Coordinators”	Citigroup and Morgan Stanley
“Joint Sponsors”	Citigroup and Morgan Stanley

“Latest Practicable Date”	Friday, 13 February 2004 being the latest practicable date prior to the printing of this announcement for the purposes of ascertaining certain information contained herein
“Listing Date”	the date, expected to be on or around Thursday, 11 March 2004, on which dealings in TOM Online Shares first commence on GEM
“LTWJi”	Beijing Leitingwuji Network Technology Company Limited (北京雷霆無極網絡科技有限公司), a company established under the laws of the PRC with limited liability on 31 July 2002
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Morgan Stanley”	Morgan Stanley Dean Witter Asia Limited, which is licensed for Type 1 regulated activity (dealing with securities) and Type 6 regulated activity (advising on corporate finance) under the SFO
“NASDAQ”	the NASDAQ National Market in the US
“Offer Price”	the final price per Offer Share (exclusive of brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee) at which the Offer Shares are to be issued pursuant to the Global Offering, to be determined in the manner to be set out in the Prospectus
“Offer Shares”	the new TOM Online Shares to be offered for subscription under the Global Offering
“Option”	a right to subscribe for TOM Online Shares pursuant to the terms of the Pre-IPO Share Option Plan or the Share Option Scheme (as the case may be)
“Over-allotment Option”	the option expected to be granted by TOM Online to the Joint Global Coordinators, to require TOM Online to issue up to a certain number of additional TOM Online Shares (which may be deliverable in the form of a corresponding number of ADSs) at the Offer Price in connection with over-allocations in the International Offering
“Overseas Shareholders”	Shareholders whose addresses on the register of members of the Company at the close of business on the Record Date are outside of Hong Kong
“PRC”	the People’s Republic of China excluding, for the purposes of this announcement only, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“Preferential Offer”	the proposed preferential offering to the Qualifying Shareholders for subscription of the Reserved Shares at the Offer Price as described in the section headed “Assured Entitlements” in this announcement
“Pre-IPO Share Option Plan”	the pre-IPO share option plan conditionally adopted by TOM Online on 12 February 2004
“Proposed Spin-Off”	the proposed spin-off and separate listing of TOM Online Shares on GEM and separate quotation of ADSs on NASDAQ
“Prospectus”	the prospectus to be issued by TOM Online in relation to the Hong Kong Public Offer and the Preferential Offer
“Puccini”	Puccini International Limited, a company incorporated in the Cayman Islands with limited liability on 13 March 2000 and a wholly owned subsidiary of TOM Online as at the Latest Practicable Date
“Qualifying Shareholders”	holders of Shares, whose names appeared on the register of members of the Company at the close of business on the Record Date, other than Overseas Shareholders
“Record Date”	Tuesday, 24 February 2004, being the record date for ascertaining the Assured Entitlements (as announced by the Company on Monday, 9 February 2004)
“Remaining TOM Group”	the Group excluding the TOM Online Group
“Reorganisation”	the reorganisation of the businesses and operations transferred to TOM Online
“Reserved Shares”	the TOM Online Shares (representing approximately 3.9% of the total number of Offer Shares initially available under the Global Offering (subject to adjustment and the Over-allotment Option)) being offered for subscription pursuant to the Preferential Offer as part of the Global Offering
“Rothschild”	N M Rothschild & Sons (Hong Kong) Limited, an authorised financial institution deemed to have been registered under section 119(1) of the SFO for Types 1, 4, 6 and 9 regulated activities from 1 April 2003 (previously an investment adviser registered with the Securities and Futures Commission) and the independent financial adviser to the Shareholders in respect of the Proposed Spin-Off and the Continuing Connected Transactions
“SFC”	the Securities and Futures Commission of Hong Kong

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder of the Shares
“Share Option Scheme”	the share option scheme conditionally adopted by TOM Online on 12 February 2004
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the same meaning as in section 2 of the Companies Ordinance
“Tenancy Agreements”	(a) three tenancy agreements, as amended by their respective conditional supplemental agreements dated 13 February 2004, between certain members of the Group and Beijing Oriental (b) a new tenancy agreement dated 13 February 2004 between LTWJi and Beijing Oriental for the lease of certain premises in Beijing Oriental Plaza which will constitute connected transactions under the GEM Listing Rules
“TOM Online”	TOM Online Inc., an exempted company incorporated in the Cayman Islands with limited liability on 28 August 2001, which is currently wholly-owned by the Company
“TOM.COM INTERNATIONAL”	TOM.COM INTERNATIONAL LIMITED, a company incorporated in Hong Kong on 26 May 1999, which is wholly-owned by the Company
“TOM Online Board”	the board of directors of TOM Online
“TOM Online Continuing Connected Transactions”	certain transactions between the Remaining TOM Group and the TOM Online Group which will constitute connected transactions under the GEM Listing Rules following completion of the Proposed Spin-Off
“TOM Online Group”	TOM Online and its subsidiaries
“TOM Online Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of TOM Online
“United States” or “US”	the United States of America
“US SEC”	the Securities and Exchange Commission of the United States
“US\$”	US dollars, the lawful currency of the United States

By Order of the Board  
**TOM.COM LIMITED**  
**Angela Mak**  
*Company Secretary*

Hong Kong, 13 February 2004

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at [www.tomgroup.com](http://www.tomgroup.com).*